

# NAVAL POSTGRADUATE SCHOOL MONTEREY, CALIFORNIA



## THESIS

### AMERICAN FOREIGN POLICY AND IRAN

by

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December 1995

Thesis Advisor:

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**AMERICAN FOREIGN POLICY AND IRAN**

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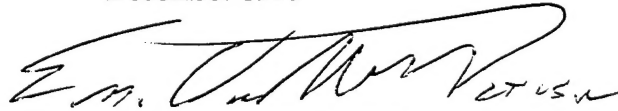
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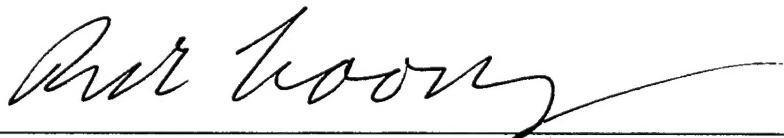


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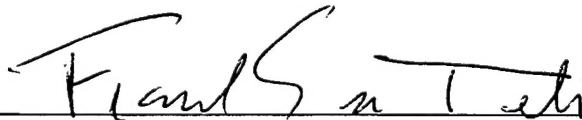
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## **ABSTRACT**

The world's growing dependence on petroleum to fuel economic development ensures that a stable Persian Gulf will continue to be a vital American interest. Iran, due to its large population, abundant natural resources and geographic position demands Washington's full attention. The Clinton administration has chosen to reverse the Bush policy practice of rewarding Iran for good behavior and has instead embarked on a confrontational course with Tehran through a policy of containment.

This thesis provides an examination of U.S.-Iranian security perspectives, a discussion of internal Iranian and regional dynamics, and analysis several alternative American policy proposals. The argument advanced in this study is that the United States can better influence Iranian behavior engaging Iran politically and economically.

The author reaches the conclusion that the United States and Iran share many strategic and economic interests. It is recommended that America pursue these shared interests, from its current position of strength, and gain Iran's cooperation on important issues. Cooperative engagement with Iran would strengthen the pragmatic elements in the government, foster economic development and improve the security and stability of the region.



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## EXECUTIVE SUMMARY

The world's growing dependence on petroleum to fuel economic development ensures that a secure and stable Persian Gulf will continue to be a vital American interest. Iran, due to its large population, abundant natural resources and geographic position demands Washington's full attention. The Clinton administration has chosen to reverse the Bush policy practice of rewarding Iran for good behavior and has instead embarked on a confrontational course with Tehran through a policy of containment.

In May of 1993, Martin Indyk, Special Assistant to the President for Near East and South Asian Affairs at the National Security Council, identified Iran and Iraq as significant threats to America's interests in the Persian Gulf. The new foreign policy, known as "dual containment," presumes that Iran is an expansionist state and therefore must be isolated from the world economic and trading system in order to prevent Tehran from becoming a substantial threat to its Gulf neighbors and to Western interests in the region. In contrast to earlier U.S. policies that offered to reward Tehran for good behavior, the plan seeks to make Iran a cooperative member of the international community by applying pressure through diplomatic and economic measures.

Evidence suggests that under the leadership of President Hashemi Rafsanjani, Iran is slowly developing a more pragmatic, less ideological, foreign policy as it attempts to gain foreign capital in order to bolster its woeful economy. "Dual containment" could erode the domestic political authority of Rafsanjani and other moderates. Furthermore, U.S. allies have expressed no enthusiasm for "dual containment" mainly because of lost trade opportunities with resource-wealthy Iran.

Rather than continue a policy that alienates allies and encourages Iran to forge closer relations with "rogue" states, the U.S. government could allow Tehran access to regular

economic relations with the rest of the world in order to strengthen the position of a more cooperative Iranian elite which would advocate improved relations with the West. My argument is that the U.S., acting from a position of strength, can better moderate Iranian behavior by implementing a foreign policy that promotes political and economic engagement of Iran.

The study begins with a brief history of developing American interests in the Middle East. This is followed by an analysis of the policy of "dual containment," with particular attention to the areas of Iranian behavior that the U.S. seeks to change. Chapters two, three and four examine the political, economic, and military forces presently shaping relations among states in and around the Persian Gulf. Of particular interest is the premise that Iran is motivated to attain strategic military capabilities due to perceived security threats posed by the arms build-up of its neighbors and by a growing American presence in the region.

Chapters five and six provide a comparison of American and Iranian security interests and identify potential areas for cooperation between the two antagonists. Chapter seven examines the major areas of Iranian behavior to which the United States objects and seeks to change. Next, an evaluation of the relative strengths and weaknesses of "dual containment" and several alternative policy proposals is provided.

In the final chapter, the author reaches the conclusion that the United States and Iran share many strategic and economic interests. It is recommended that America pursue these shared interests, from its current position of strength, and gain Iran's cooperation on important issues. A policy of constructive engagement with Iran would strengthen the pragmatic elements in the Iranian government, foster economic development and improve the security and stability of the Gulf region.

## **I. INTRODUCTION: THE FOUNDATION FOR NEW RELATIONS**

U.S. policy toward Iran is couched in broader American interests in the Middle East: an end to the Arab-Israeli conflict, a peaceful succession of Iraq's leadership, and a secure Persian Gulf with unhindered access to its oil supplies. An Arab-Israeli peace could make it easier for Arab governments to cooperate with the United States on other Middle East issues. Similarly, if a moderate government were to replace Saddam Hussein's regime, Iraq could reemerge as a counterweight to Iran.

These are optimistic scenarios. A peaceful resolution to the Arab-Israeli conflict and the advent of a more amenable government in Iraq will take time. Meanwhile, it is argued in this study that a more cooperative Iran policy would, if successful, limit the Islamic Republic's potential for undermining American interests in the region as well as establish the basis for better U.S.-Iranian relations.

Given Iran's potential for re-emerging as a regional power, is it wise for the United States to accelerate initiatives to isolate the Islamic Republic, along with Iraq, and cast them as two equally belligerent outcasts? Or is there now an opportunity to articulate a less hostile approach with Iran while continuing to pursue a hard-line against Iraq? The Clinton administration's willingness to confront Iranian behavior reflects the belief that Tehran is currently weak and unable to challenge America's position in the region. Precisely, however, for this reason, a less confrontational policy would be more likely to change Iranian behavior.

### **A. THE DEVELOPMENT OF AMERICAN INTERESTS IN THE MIDDLE EAST**

Present day American foreign policy towards the Middle East developed primarily after the Second World War. Three primary interests emerged: (1) checking Soviet



influence as part of a global containment strategy; (2) preserving the unrestricted flow of oil resources at market rates; and (3) preserving the security and stability of friendly states.

Collateral interests include industrial development, opportunities for foreign investment, and unrestricted access to foreign markets for U.S. exports. To some extent, a commitment to democratization, human rights, and liberalism has been forwarded as well.<sup>1</sup> Each of these concerns received varying emphasis during successive U.S. administrations. American foreign policy tended to reflect these collateral interests only when the three primary concerns were perceived as secure.<sup>2</sup>

While the primary interests have been consistently met, their accomplishment has been more the result of ad hoc response to crises than policy formulation which would protect American interests by promoting peace and stability in the region. A strategy for the future must reexamine the relevance of these interests and where needed, suggest new focuses for policy. This is a necessary goal in an area rife with conflict and regional polarization. However, changes in the Middle East and in the international system give the United States more freedom to pursue its interests. While it is doubtful that there will ever be lasting resolution of the many deep-seated conflicts in the Middle East, an American approach that is more realistic and even-handed could serve to promote cooperation, help to narrow economic disparities, and deescalate the regional arms race.

The end of the post-Cold War has far-reaching implications. While both the United States and the Soviet Union were less than successful in efforts to shape events and

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<sup>1</sup>See Gershon R. Kieval and Bernard Reich's The Powers in the Middle East: The Ultimate Strategic Arena (New York: Praeger, 1987), pp. 58-61.

<sup>2</sup>One example is President Jimmy Carter's efforts to condition relations with Iran through its human rights record. James A. Bill, The Shah, The Ayatollah, and the U.S. (New York: Foreign Policy Association, 1988), minimizes the role played by Carter's human rights policy in pressuring Reza Shah to make political and economic reforms. Of note, Carter refused to condemn the Shah's human rights abuses, particularly the Black Sunday incident, which only convinced Shiite leaders that the U.S. condoned these actions.

suppress conflict in the Middle East, the beginning of multipolarity is as important here as it is in the rest of the world. The direct consequences of the collapse of the Soviet Union are numerous. These include the end of communism; the lack of an extra-regional threat to American interests; the impetus for changing U.S. strategy and military force structure; and less reliance by American allies, principally Western Europe and Japan, on U.S. military power. With the Soviet threat removed, the United States, as well as other nations, are free to take a new approach to the nations and issues of the Middle East while honestly assessing their own interests.

The U.S.-led coalition's 1991 victory against Iraq showed future regional rivals that America is willing to go to war to protect its vital interests. Further, it ended the myth of Arab unity; affirmed the preeminence of the nation-state system; provided an example of international support for enforcing United Nations (UN) resolutions; demonstrated U.S. military capability and the political will to use it; and highlighted the inability of the Gulf Cooperation Council (GCC) states to defend themselves, thus adding to their reliance on Western protection. The results of the 1991 Persian Gulf War include increased America credibility with the GCC states; increased pressure for more political participation by all states in the region; increased arms sales to the Persian Gulf; and a change in the regional balance of power that benefits Iran.

These events have combined to provide Iran with the long delayed opportunity again to become a key player in Southwest Asia. The Iranian government is seizing this opportunity. While establishing a new posture of moderation in its foreign policy behavior, Iran's leadership has embarked on a policy of military modernization. Iran inevitably will reassert itself as a power in the region within the next few years.

The emergence of new changes in alliances, allegiances, economic arrangements, and political objectives among the states of the Persian Gulf have also forced Iran to

reevaluate its behavior toward the West, and the United States in particular, and to focus its response to the issue of American presence in the region. Although few, and often contradictory, outlines of possible Iranian reactions have emerged, both formal and informal statements coming from the Tehran leadership point to the fact that a major change in Iran's relationship with the United States is unlikely to occur in the immediate future.<sup>3</sup>

Iran resists American presence in the Persian Gulf because of its belief that such a presence will be used to reassert U.S. political and military influence inside Iran. However, Tehran has not automatically opposed American policies elsewhere in the Middle East, despite assertions to the contrary.<sup>4</sup> Further, the presence of American forces in the Persian Gulf has not pushed Iran into adopting a position that would resort to violence and acts of subversion. Indeed, Iran's cooperation in the release of hostages from Lebanon suggests that future Iranian behavior will be different.

Since the winter of 1991, the Iranian leadership apparently has come to view both dangers and benefits associated with American presence in the region as substantial and real. This phenomenon, taken together with the aforementioned radical geostrategic changes occurring both in and outside the region, has strengthened the elements of pragmatism in the conduct of Iranian foreign policy. Such changes have also mandated caution, circumspection, and vigilance as elements of Tehran's foreign policy. Furthermore, due to these new circumstances, Iran has come to clearly recognize that

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<sup>3</sup>See Nikola B. Schahgaldin's RAND study prepared for the U.S. Under Secretary of Defense for Policy entitled *Iran and the Postwar Security in the Persian Gulf* (Santa Monica: RAND, 1994).

<sup>4</sup>Remarks by Iranian Foreign Minister, Ali Akbar Velayati are typical of the rhetoric Tehran frequently issues to its public which rarely conform to its official diplomatic initiatives. See *Tehran ABRAR*, "Velayati on Relations with U.S., Other Issues." English translation provided by the *Middle East Intelligence Report*. America Online Service, 15 July 1994, p. 1.

continuing a blanket opposition to American positions in the Middle East is counterproductive.<sup>5</sup>

## **B. SHIFTING AMERICAN POLICY IN THE MIDDLE EAST**

In the Iran-Iraq War, Washington came to realize that a total Iranian defeat was not in the interest of the United States. In the Gulf War, the United States was quietly appreciative of Iranian restraint. Despite such setbacks as the Iran-contra affair, the gradual increase in official contacts between Washington and Tehran were found by both governments to be in their mutual interest. President George Bush noted on several occasions that Iran should not be considered as a pariah forever.<sup>6</sup>

Following on the heels of Operation Desert Storm, Bush declared victory for the United Nations, mankind, and what is right.<sup>7</sup> Bush hoped to follow victory with a comprehensive plan for the Middle East. The elements of this plan included five familiar areas: the enhancement of democracy, movement toward a genuine peace in the Arab-Israeli conflict, control over the proliferation of weapons of mass destruction (WMD), economic development, and a Persian Gulf security arrangement.<sup>8</sup> The plan, subsequently dubbed the "five pillars of wisdom," was considered to be a sound and well-thought-out attempt to avert the repetition of past mistakes in the region. However, only one item on

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<sup>5</sup>Nikola B. Schahgaldian, *Ibid.*, pp. vii-viii.

<sup>6</sup>George Bush, "Kuwait is Liberated," The Gulf War Reader (New York: Times Books, 1992), p. 40.

<sup>7</sup>*Ibid.*, p. 40.

<sup>8</sup>Richard K. Herrman summarizes George Bush's policy agenda in his article "President Bush's Address on End of Gulf War," International Security, Fall 1991, p. 42.

the Bush administration's post-war agenda received serious and sustained attention -- the Arab-Israeli conflict.<sup>9</sup>

Previously, the Bush administration had worked tirelessly to promote an even-handed approach with regard to Iran and Iraq. Despite claims to the contrary during the 1992 Presidential campaign, Bill Clinton would soon shift American policy away from the Bush approach and toward what many Middle East experts consider to be an "Israel-first" approach.<sup>10</sup>

### C. DUAL CONTAINMENT

The Clinton administration's approach to the Middle East was first laid out by Martin Indyk, a senior official on the National Security Council, in a 18 May 1993, speech he gave to the Washington Institute for Near East Policy, an organization which he had been co-founder and executive director. Two elements were listed by Indyk as central: Israel had to be kept strong while the peace process continued, and Iraq and Iran had to be kept weak. Indyk referred to the latter policy as "dual containment":

[Dual containment] derives from an assessment that the current Iraqi and Iranian regimes are both hostile to American interests in the region. Accordingly, we do not accept the argument that we should continue the old balance of power game, building up one to balance the other....We reject it because we do not need it....The coalition that fought Saddam remains together. As long as we are able to maintain our military presence in the region; as long as we succeed in restricting the military ambitions of both Iraq and Iran; and as long as we can rely on our regional allies -- Egypt, Israel, Saudi Arabia and the Gulf Cooperation Council, and Turkey -- to

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<sup>9</sup>Avi Shalaim, War and Peace in the Middle East: A Critique of American Policy (New York: Viking Penguin, 1994), p. 132.

<sup>10</sup>Ibid., p. 132.

preserve the balance of power in our favor in the wider Middle East region, we will have the means to counter both the Iraqi and Iranian regimes.<sup>11</sup>

The policy of dual containment incorporates a number of elements from previous American policies. It is aimed at preventing any power from supplanting the U.S. as the dominant force in the region and on protecting the GCC from hostile aggression. However, critics of this sudden shift in policy soon were heard. Columbia University professor F. Gregory Gause spoke for many of these critics when he wrote in a recent Foreign Affairs article:

In its strategic logic the policy represents a significant departure in Washington's approach to the Gulf. Dual containment explicitly disavows the need for any kind of political relationship with Iran or Iraq and rejects the idea that a rough military equivalence between them is an important element of Gulf stability. It assumes for the United States a much larger, unilateral role in managing Gulf affairs than any previous administration has envisioned at a time that American influence over the two most important strategic actors in the Gulf.<sup>12</sup>

Other potential problems with the policy exist as well. For one, American allies in the region and elsewhere have provided almost no support for dual containment, making its implementation highly problematic. Dual containment offers no guidelines for dealing with change in the Persian Gulf, and it ties U.S. policy to an inherently unstable regional status quo. Further, it assigns to America a unilateral role in managing Gulf security issues. The policy could end up encouraging the results -- regional conflict and increased Iranian power -- that the United States is trying to prevent.<sup>13</sup>

If dual containment is not the answer, then what is? While it is doubtful that there will ever be a lasting cessation of hostilities in the Middle East, an American approach that

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<sup>11</sup>See Douglas Jehl, "U.S. Seeks Ways to Isolate Iran; Describes Leaders as Dangerous," New York Times, 27 May 1993, pp. A1, A4.

<sup>12</sup>F. Gregory Gause III, "The Illogic of Dual Containment," Foreign Affairs, March/April 1994, p. 60.

<sup>13</sup>*Ibid.*, p. 57.

is even-handed in its policy with Iran could well serve as a model from which to successfully rein in so-called "rogue states" that threaten Western interests. These issues are addressed at length in Chapter VIII where an evaluation of the relative strengths and weaknesses of dual containment and several alternative policies including both cooperative engagement, and active containment measures is provided.

The study begins with an examination of the political, economic, and military forces that are shaping Iran's security perspective. The intent is to show that Iran is motivated to attain increased military capability due to perceived security threats posed by the arms build-up of its neighbors and by a growing American presence in the region. This is to be followed with a comparison of American, GCC, and Iranian security interests with an eye toward identifying potential areas for cooperation in the Persian Gulf. It is the intent of the opening chapters to provide a basis for sketching the potential direction of Iran's foreign relations, and thus determine the best approach for American policy for the Middle East.

## **II. THE DOMESTIC CONTEXT:**

### **THE POLITICAL AND ECONOMIC INPUT TO IRANIAN DECISION MAKING**

With the coming to power of Ali Akbar Hashemi Rafsanjani as Iran's president, several domestic issues have helped contribute to Iran's more pragmatic international behavior. Political and economic changes in Iran have been significant since the Revolution. Before examining various aspects of Tehran's foreign behavior, it is prudent to outline these recent domestic political and economic developments, the underlying reasons for its new course of action, and the present status of the Iranian regime.

#### **A. THE POLITICAL SYSTEM**

The foundations for a major change in Iran's political outlook originated laid in July 1988 when Iran agreed to a cease-fire in its war against Iraq. The most far reaching change was that the Ayatollah Khomeini was no longer at the center of all of political decision making in Tehran. This had important implications for the balance of factional clerical forces within Iran itself, since Khomeini's decline inevitably meant that the radical revolutionary groups and other extremists lost any opportunity for significant political influence. This was so precisely because the radical political doctrines of these groups were motivated by and mirrored those of Khomeini himself.<sup>14</sup> They believed that the war against Iraq had to continue until final victory and that only this conclusion would guarantee the new Islamic era throughout the Muslim world. In contrast, the more pragmatic leaders in Tehran had by early 1987 come to believe in the improbability of Iraq's military defeat.<sup>15</sup>

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<sup>14</sup>Shireen T. Hunter, "After the Ayatollah," Foreign Policy, Spring 1987, p. 79.



Their resolve was strengthened by the lack of success in the 1986 winter offensive on the outskirts of Basra.<sup>16</sup> In the meantime, the leadership in Tehran perceived the growing American naval presence in the Persian Gulf as a serious threat, and apparently realized the country was neither militarily nor psychologically prepared for a confrontation with the United States<sup>17</sup> Meanwhile, several minor military clashes between Iranian Revolutionary Guards and U.S. naval units in the Persian Gulf occurred. Following one of these clashes, in July 1988, the U.S.S. Vincennes mistakenly shot-down an Iranian civilian passenger plane, killing all 290 passengers on board.<sup>18</sup>

The shoot-down had major internal repercussions for Iran. The moderate camp became convinced that the continuation of the war would thereafter pose a serious threat to the stability of the regime. Thus, those who wished to end the armed hostilities against Iraq, led by Rafsanjani, seized upon the dramatic incident, eventually convincing Khomeini that a cease-fire was the best course to follow. This allowed Iran to concentrate on its internal agenda. Among many other developments, this change strongly affected the support bases of the more radical factions within the clerical establishment. For example, these forces were no longer able to exploit the war with Iraq for justifying their Islamic doctrinaire social policies and austere economic measures. Consequently, the formal governmental apparatus that had been the focus of power and a stronghold of the radical factions found itself almost unable to manage the economy. This problem led to a series

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<sup>15</sup>Nikola B. Schahgaldian, The Clerical Establishment in Iran, (Santa Monica, Calif.: RAND, 1989).

<sup>16</sup>For a complete study of the Iran-Iraq War, see Shahram Chubin and Charles Tripp, Iran and Iraq at War (London: L.B. Tauris, 1988).

<sup>17</sup>For a summary of the Iranian position, see Shireen T. Hunter, Iran After Khomeini (New York: Praeger, 1992).

<sup>18</sup>George Lenczowski, American President's and the Middle East (Durham, N.C.: Duke University Press, 1990), p. 252.

of divisive debates and disagreements within the extremist camp throughout 1988. Thus, the new political and military circumstances became especially favorable to the pragmatic clerical politicians.<sup>19</sup>

Khomeini's death in the summer of 1989 did not plunge Iran into the chaos predicted by many Middle East observers. On the contrary, Ali Khamenei was named as the new spiritual leader within a few days, while Rafsanjani won the country's presidential election on July 28. In the same election, the constitution was amended by a referendum that reframed the president's power, putting him in effective charge of the executive. Similarly, the office of prime minister and its subordinate apparatus, which served various economic and administrative functions, were abolished altogether and their prerogatives passed to the president.<sup>20</sup>

Since the 1992 election, the moderate pragmatists, on the whole, have gradually succeeded in developing their internal political position through carefully constructed alliances with other religious and political leaders. For example, Rafsanjani has strengthened his ties with some economically conservative and centrist power blocs and has reinforced his long established support bases among the merchants and government workers. This is reflected in the growing prominence of many conservative politicians who have been appointed to administrative and diplomatic positions in the last several years. Similarly, Khamenei, who has considerably toned-down his originally hard line positions on various domestic and foreign issues. The two men have often worked as a team.<sup>21</sup>

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<sup>19</sup>Shireen T. Hunter, Iran After Khomeini, pp. 14-45.

<sup>20</sup>For details see Iran Focus, May-August 1989, pp. 5-10.

<sup>21</sup>Shireen T. Hunter, Iran After Khomeini, Ibid.

Even though the moderates have consolidated their positions, they still do not control the political process in Tehran. As a result, the Rafsanjani government has faced considerable difficulty in resolving urgent domestic and foreign policy problems. These include bringing under control the rampant inflation which is estimated variously as between thirty and sixty percent; eliminating shortages created largely by its war with Iraq; and reconstruction of its economy. The urgency has been highlighted, however, by the growing popular realization in Iran that the gap between the resources Tehran commands and what it needs is so wide that it cannot be bridged without foreign assistance.

During the 1992 elections, the hard-liners gained some political influence, suggesting that Iran's messianic revolution has not ended. Militants continue to support Islamic movements, including the Hezbollah in Lebanon, the Islamic Salvation Front in Algeria, and the Islamic government of Sudan. If these efforts to undermine conservative leadership groups continue, they are certain to feed tensions, not only in the Persian Gulf, but much further afield, undercutting the more pragmatic image that Rafsanjani is attempting to project.

Internally, the hard-liners have continued to publicly contest and often slow down many of the government's reform measures. This is facilitated somewhat by the fact that Rafsanjani must contend with an influential minority of approximately 120 hard-liners in Iran's 270-member parliament, which still wields considerable influence over executive policy. The hard-liners in parliament and the newspapers they control, such as Kayhan, have criticized what many describe as "Hashemi's perestroika." This includes Rafsanjani's advocacy of consumerism, his often-stated preference for private enterprise over state owned management of the economy, and his view that it is time for Iran to normalize its ties with the West.<sup>22</sup>

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<sup>22</sup>Ibid.

Although clerical rivalries have continued to disrupt Iran's internal situation, it is possible to discern a consistent trend in the internal balance of forces. It should be stated at the outset that if the pragmatists headed by Rafsanjani fail to hold on to power, the prospects for a balanced political system will be minimal. The contenders for power within the clerical establishment are currently the two extremes of Islamic revolutionary hard-liners on the left and the religious conservatives on the right. The hard-liners overwhelmingly provide the opposition to the current government. Throughout the 1990's they seem to be frustrated by Rafsanjani's trimming of revolutionary practices. In particular, the radical hard-liners want a strongly centralized economic system, which Rafsanjani does not endorse. They also seek various radical and egalitarian social policies -- demands that the Council of Guardians, which has to ensure that all laws passed conform with Islamic law, has consistently rejected.<sup>23</sup>

Although the radicals and other opposition elements of the present government appear too weak to seriously threaten the government, certain underlying factors may yet work in their favor. To begin with, despite Rafsanjani's efforts to keep the economy running, he has been unable to bring about needed socio-economic improvements. Problems created by inflation, high unemployment, a war-stricken economy, and refugees also remain largely unsolved. In part, because of these difficulties, the present domestic situation has become even more unsettled than a few years ago.

Indeed, a recent split among the Shia hierarchy have appeared concerning the elevation of Khamenei to the status of Grand Ayatollah. Thus far, the open criticism by many senior clergy of the government and the general discontent and economic frustration have resulted in scattered clashes, limited public demonstrations, numerous house arrests, and the emergence of a number of new clerical power centers. The April 1992 elections

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<sup>23</sup>Ibid.

confirmed earlier indications of a political system under considerable and growing domestic strain. While elections were free, the choice of candidates was limited by the Council of Guardians, which "performed its duty decisively in preventing undesirable persons and assisting deserving ones in entering the majlis."<sup>24</sup>

Over a thousand candidates were rejected in this process. Many of them were militant Islamists. The selection process, rather than the election itself, favored the more moderate candidates, enabling Rafsanjani to advance his agenda. Both the government and its various opposition forces maneuvered themselves into new positions to expand their sources of support and modify their domestic and international orientations to further solidify their positions before the elections.<sup>25</sup>

## **B. IRANIAN ECONOMIC DEVELOPMENT**

### **1. Reza Shah's Economic Policies**

It is generally agreed that the economic conditions under the Shah caused major dissent which directly contributed to his eventual overthrow. Despite committing a number of serious economic mistakes prior to the 1979 revolution, the Shah's policies had attained several noteworthy accomplishments. The White Revolution reforms that took place during the 1960s and 1970s helped contribute to an average annual growth rate of nearly ten percent. Also, an extensive welfare program made significant reductions in infant mortality, disease, and illiteracy rates, while caloric intake, school enrollment, and life expectancy were all increased.<sup>26</sup> However, Iran's economy remained dependent on the

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<sup>24</sup>FBIS, NESA, 2 April 1992, p. 37.

<sup>25</sup>Michael Parks, "Iran's Rafsanjani Guarding His Political Flanks, Steers a More Moderate Course," Los Angeles Times, 13 January 1992, p. 9.

oil sector. Iran maintained a characteristically Third World single-commodity export economy, in which oil accounted for nearly fifty percent of its gross national product (GNP).<sup>27</sup>

The drive toward industrialization, which led to greater urbanization, left the agricultural sector neglected. Given such added factors as increased population growth and consumption, Iran had become a major food importer by the time of the revolution. In 1978, for example, Iran imported more than \$2 billion worth of foodstuffs, meat, and dairy products.<sup>28</sup>

The Shah's goal of remolding Iran into an industrialized nation and military power proved to be too ambitious. The rapid modernization and urbanization created alienating social dislocation, fed corruption and increased the rural-urban and intra-sector income gaps. By the mid-1970s, the top twenty percent of the population accounted for fifty-five percent of household expenditures, while the bottom twenty percent made up only four percent, then one of the largest disparities in the world.<sup>29</sup> This situation, together with the rise in social and political consciousness, led to rising expectations which bred popular dissatisfaction despite significant economic gains.

## **2. The Post-Revolution Economic Plan**

The first post-revolutionary economic development plan, presented in 1983, resembles a political manifesto. Nevertheless, it is the only public document that states the present regime's principal economic objectives and, hence, is the only benchmark against which to measure the Islamic Republic's performance. The plan states its principal objectives are as

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<sup>26</sup>Jahangir Amuzegar, "The Iranian Economy Before and After the Revolution," Middle East Journal, Summer 1992, p. 414.

<sup>27</sup>Shireen T. Hunter, Iran After Khomeini. (New York: Praeger, 1992): p. 56.

<sup>28</sup>Ibid.

<sup>29</sup>J.H. Muhl, The Iranian Revolution: Revalidating Crane Brinton's Model of Revolutions (Fort Leavenworth, KS.: Army Command and General Staff College, 1990), pp. 7-8.

follows: (1) Expand education and culture, ultimately leading to free primary and secondary education; (2) Secure economic independence, defined as the ability to provide locally the "capital goods, technology, and expertise" and on trading, manufacturing, and other locally produced goods rather than exporting mineral wealth such as oil; (3) Provide social security, health care, medical care, food, clothing, and housing; and (4) eliminate unemployment and secure the interests of the deprived.

The Islamic government planned to meet these objectives through what essentially amounts to ideological slogans. The prescriptions included: Preventing consumerism and emphasizing investment; making agriculture the vanguard of the country's economic growth; expanding research, which is considered essential for acquiring the scientific and technological base necessary for economic independence; training skilled personnel; expanding secondary activities (that is, establish small industries) to raise the villagers' and tribes people's income; establishing links between various economic sectors; emphasizing expansion of intermediate and machine tool industries; expanding non-oil exports; preventing the expansion of large cities; and protecting the environment.

On the assumption that oil income would continue to increase into the future, The economic plan envisaged an annual gross domestic product (GDP) growth rate of eight percent. Additionally, the plan intended to deal with inflation and restore budgetary and fiscal balance.<sup>30</sup>

What is clear is that none of the plan's objectives have been achieved. The idealistic vision of social justice and benevolent centralized control, wholesale nationalization of industries, and mismanaged land reform have hampered the economic improvement of a potentially wealthy nation. Other factors hindering Iran's economic growth include the loss of trained professionals and capital to the West, the eight year war with Iraq, the

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<sup>30</sup>Shireen T. Hunter, Iran After Khomeini. Ibid., pp. 65-66.

tremendous influx of refugees from bordering states, an unstable international oil market, a high birth rate, Western sanctions, and international isolation.<sup>31</sup>

Indeed, Iran is in a worse position today than it was in 1978. During the period between 1978 and 1989 real GDP declined at an annual average rate of two percent. Per capita consumption fell by twenty percent, while the economy shifted from a consumer orientation to one of central control and wartime austerity. Additionally, public investment dropped from eighteen percent to seven percent of GDP. Unemployment regularly ran as high as thirty percent. One-third of total employment was in the public sector and agricultural employment decreased by ten percent. It also appears that the working poor have benefited little from the change in government. During the early 1970s, approximately forty percent of the population were officially below the poverty line. Absolute poverty reportedly increased by some calculations to as high as seventy-five percent of the population by 1988.<sup>32</sup>

The oil industry was especially hit hard during the war with Iraq. Total infrastructure damage from the war was estimated by the UN team to be nearly \$100 billion.<sup>33</sup> Iran's oil production reached a low of 1.46 million barrels per day (mbd) in 1980-82, as compared to 5.6 mbd in 1976. It increased slightly during the rest of the war, ranging between 2.2-2.9 mbd. Today, Iran's oil production has leveled-off at the 3.6 to 3.8 mbd range<sup>34</sup> The oil industries contribution to GDP declined from an average of thirty-five percent in the

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<sup>31</sup>Jahangir Amuzegar, "The Iranian Economy Before and After the Revolution," *Ibid.*, p. 416.

<sup>32</sup>*Ibid.*, pp. 418-421.

<sup>33</sup>*Ibid.*, p. 422.

<sup>34</sup>Reuters, "Newsletter Sees OPEC Output Up As Iran Over Quota," America Online Service, 11 July 1994.



1970s to fifteen percent in the 1980s.<sup>35</sup> Although Iran has registered a substantial overall growth in its oil production capacity since the 1988 cease fire with Iraq, its rebuilding process has been slow and costly. During its most recent report in January 1994, Iranian Oil Minister Gholamreza Aghazadeh claimed that production had fallen four percent over the past year. This combined with the decline in oil prices to their lowest level in five years has led Iran to experience an unexpected drop in oil revenues to below \$14 billion this year.<sup>36</sup> The continued weak performance of the oil sector and its large portion of government revenues is probably the clearest indication of the current state of the Iranian economy.

### **3. Today's Economy**

Two decades of internal revolutionary fervor and war have greatly eroded Iran's infrastructure, lowered living standards, and raised the economic costs of reconstruction. From 1977, Iran's peak production year prior to the Revolution, to 1989, Iran's GDP has declined fifteen percent. Living standards, as measured by private consumption per capita has declined forty percent; and investment in the economy has declined sixty-five percent. Today, nearly one-third of Iran's work force is believed to be unemployed.<sup>37</sup>

Although the infrastructure may be easily repaired, it is not so easy to replace the lost human resources. It is estimated that 300,000 Iranian soldiers were killed during the war with Iraq with over 700,000 wounded. Another 1.6 million Iranians were left homeless.<sup>38</sup>

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<sup>35</sup>Jahangir Amuzegar, *Ibid.*, p. 419.

<sup>36</sup>Mona Megalli, "Mideast Outlook: Investors Unsure About Access to Gulf Oil Sectors," Knight-Ridder Financial News, America Online Service, 25 March 1994.

<sup>37</sup>Eliyahu Kanovsky, The Economy of Iran: Past, Present, and Future. A study submitted to the Director, Office of Net Assessment, Office of the Secretary of Defense. (Arlington, VA.: Systems Planning Corporation, April 1992).

<sup>38</sup>*Ibid.*, p. 37.

In addition, revolution and war have depleted the population of educated and skilled workers. Due to emigration, there is a substantial shortage of college graduates, and only about one-half million technical specialists remain in the country.<sup>39</sup>

One of Iran's principal developmental problems is the high rate of population growth. Since the revolution, the growth rate has measured somewhere between 3.5 to 3.9 percent annually. Indeed, it is estimated that Iran's population could surpass the 100 million mark by the end of the year 2006. Moreover, like other Third World countries, Iran's population is very youthful. Nearly half of Iran's population is age fifteen-years or younger. Such a young and growing population tremendously strains the government's ability to provide housing, education, health services, and jobs. It is estimated that 600,000 people enter the job market annually, which makes reducing the rate of unemployment a taunting task.<sup>40</sup>

Today, Iran's economy is a mixture of central planning, state ownership of oil and other large enterprises, agriculture, and small scale private trading in service ventures. After a decade of economic decline, Iran's GNP grew roughly four percent in FY90 and ten percent in FY91.<sup>41</sup> The Rafsanjani government has begun implementing a number of economic reforms to reduce government intervention and has allocated substantial resources to development projects in the hope of stimulating the economy. Nevertheless, lower oil revenues and increases in external debt are threatening development plans and

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<sup>39</sup>Nikola Schahgaldian, "The Current Political and Economic Environment in Iran," in Balance of Power in Central and Southwest Asia, Steve R. Dorr and Neysa M. Slater, eds. (Washington, D.C.: Defense Academic Research Support Program, 1992), p. 114.

<sup>40</sup>See Jahangir Amuzegar, Iran's Economy Under The Islamic Republic (London: L.B. Tauris, 1993), pp. 61-69.

<sup>41</sup>Iran - U.S. Department of Commerce's Trade Data bank (NTDB). University of Missouri - St. Louis Internet Information Database, 29 June 1994, p. 4.

could prompt Iran to cut imports, thus limiting economic growth in the medium term. Despite Rafsanjani's emphasis on self-sufficiency, oil continues to account for more than ninety percent of export revenues and provides roughly sixty-five percent of the financing for Iran's five-year economic development plan.<sup>42</sup>

In short, Iran has been unable to diversify its export base. Moreover, inadequate investment, political instability, and war damage have prevented Iran from becoming a significant exporter of petrochemicals, fertilizers, and other oil derivatives. The underdeveloped state of Iran's petrochemical industry has also dampened the expansion of other industries, such as textiles.

Unless oil revenues and profits from other productive sectors significantly increase, Iran may not be able to raise living standards appreciably. Not only is growth necessary but structural changes are needed as well. The industrial sector is not expected to produce increased employment anytime in the near future. Iran's foreign debt has grown to approximately \$17 billion in the past year.<sup>43</sup> Although Iran has begun to liberalize its economic policies, private investment has been slow in arriving. Iran's need for foreign investment and technology gives the West a measure of potential influence over Iran.<sup>44</sup> If Iran does not achieve a period of sustained, high-level, non-inflationary growth, it will continue to face rising unemployment, inflation, poor living standards, and the distinct possibility of civil unrest. This, in turn, could threaten the stability of the regime.

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<sup>42</sup>Ibid.

<sup>43</sup>Xinhua, "Iran Reschedules 10 Billion-Dollar Debts," American Online Service, 31 May 1994.

<sup>44</sup>Patrick Clawson, Iran's Challenge to the West: When, How, and Why (Washington, D.C.: Washington Institute for Near East Policy, 1993), p. 30.

#### **4. Rafsanjani's Economic Policies and Plans**

Upon gaining power in 1989, Rafsanjani initially focused his attention on the Iranian economy. Of immediate concern was the shortage of consumer goods and the lack of domestic production capability. The administration's goal in rectifying the situation was to restore Iran's present industrial production to full capacity before increasing output or setting up new industries. However, Rafsanjani's efforts have been marred by the lack of foreign exchange, the difficulty of finding advantageous financing, the fall in oil prices, and the squabble within the leadership over foreign borrowing.<sup>45</sup>

As part of its policy of industrial revitalizing, Rafsanjani has attempted to attract private investment; it decided that between 500 and 800 industrial concerns would be sold to the public. This policy, however, has not meet with total success. Part of the problem has been the obstructions of the hard-liners who have suggested that the investors buying these industries should allocate a certain portion of the value of the enterprise to underprivileged Iranian citizens. As a result, the fate of these now state-owned industries remains unclear. As noted, some have suggested that the state return them to their original owners if the owners were not too closely identified with the shah's regime. With Iran's acute need for capital, the more moderate elements seem to be willing to lure back Iran's leading industrialists of the shah's period.<sup>46</sup>

Several subsequent initiatives have defined Rafsanjani's present economic recovery plan. The most visible initiative has been to revive Iran's energy production sector, including the repair and develop of its electrical power, petrochemical, oil, and gas industries. The success rate of this work has been quite encouraging. For example, Iran's largest petrochemical complex to date has recently been completed. The Arak plant

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<sup>45</sup>Ibid., p. 85.

<sup>46</sup>Shireen T. Hunter, Iran After Khomeini, Ibid., p. 81.

located on the Persian Gulf port of Imam Khomeini is expected to yield 3.5 million tons of petrochemical products annually - enough to meet the demands of 1,700 factories. In total, \$3.7 billion has been invested in the three petroleum industries. The repair of Iran's power stations damaged by during the war with Iraq has been another priority, although progress in this arena has been slower. However, it is believed that electrical power capacity has increased by thirty-five percent over the past five years.<sup>47</sup>

Another Rafsanjani initiative involves the implementation of a five year economic development plan which relies on foreign sources for investment in development projects. Iran's capital and foreign exchange needs are staggering. It is estimated, for example, that Iran will need \$30 billion in foreign exchange beyond its export earnings to implement its five year plan. In theory, Iran should not have much trouble gaining access to capital. Iran is one of only a handful of Third World countries with a high rate of creditworthiness; it has little long-term foreign debt. Blessed with one of the world's largest reserves of oil and natural gas, Iran's has the ability to service a reasonable amount of foreign debt.

Thus, under the right circumstances, Iran should be able to borrow from both international development and lending institutions and from private international banks. Indeed, "there are indications that the billions of dollars invested in massive industrial projects over the past five years have started to pay off in terms of lower import requirements and extra revenues from non-oil exports."<sup>48</sup> Iran has been able to cut imports and achieve a rough trade balance for the past year.

Unfortunately for Rafsanjani, the issue of foreign borrowing has become one of the principal weapons with which the hard-line opposition has used to sabotage his economic

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<sup>47</sup>SEM NAN, "Iran's Largest Petrochemical Plant to go Onstream," American Online Service, 11 February 1994.

<sup>48</sup>Iranian Finance Minister Nourbakhsh, quoted in Petrossian, p. 3.

recovery strategy. Iranian hard-liners fear that external borrowing would again lead to Tehran's political domination by foreigners because the West controls the capital resources. This would mean Western dominance, which strikes a sensitive chord in the Iranians' psyche. Iran's recent history has been replete with instances when foreign borrowing has led to foreigners' receiving undue concessions and privileges.<sup>49</sup>

Yet, despite the traditional Iranian revulsion against foreign borrowing and the radicals' opposition, the necessity of some borrowing has been recognized. Moreover, Iran is interested in getting World Bank loans for major infrastructural projects, including the building of a third dam on the Karun river in Khusistan province.<sup>50</sup> But there seems to be greater reluctance to borrow from the International Monetary Fund (IMF), even among the moderates; the IMF's rules of conditionality imply considerable supervision of and interference in the country's economic policies.

Rafsanjani's most bold initiative has been the decision to allow the rial to be convertible on the open exchange market. This is a move designed to transform the economy from its centralized control and move Iran into the global market system. The move was helped by World Bank loans of over \$1.5 billion, a potential Japanese loan of \$325 million, and the deferment of payments on letters of credit held by France, Germany and Japan, three of Iran's largest trading partners, said to be worth several billion dollars.<sup>51</sup> Though expected to make Iran more attractive to international investors and ease credit rates abroad, the

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<sup>49</sup>See "Islamic Republic of Iran Undergoes Profound Institutional, Structural Reform," IMF Survey, 30 July 1990, pp. 226-229.

<sup>50</sup>"The Future for the Iranian Economy," 15 November 1991, MEED.

<sup>51</sup>Stewart Taggart, "Iran Reaches Accord on Terms for Rescheduling Arrears," Knight-Ridder, America Online Service, 8 July 1994.

domestic impacts could be severe. Inflation is expected to remain at its current rate of thirty percent and unemployment will also increase. If Tehran can engender confidence and stability to hold off currency speculation and stave off social unrest in the short term, the long term effects could be positive. Rafsanjani and his political and economic reformers are counting on the convertible rial to force Iran into economic efficiencies that will reduce dependence on oil and make it more competitive on world markets.<sup>52</sup>

Iran's Foreign Minister, Ali Akbar Velayati has been very active meeting with trade representatives from various countries in an attempt to expand Iran's global economic integration. The most successful venture thus far has been the agreement to begin construction of the worlds largest natural gas pipeline (the Turkmenistan-Europe line) that will run 6,700 km and link Western Europe and Asia with Iran. The \$9 billion dollar project is expected to be of both political and economic benefit to Iran.<sup>53</sup> Furthermore, Tehran is considering joining Sharjah-based Crescent Petroleum in a Qatar-Pakistan gas pipeline project, where a line from Iran's southeast fields would join a trans-Gulf line to Pakistan. Construction of natural gas pipelines to both India and the Ukraine are also under study.<sup>54</sup>

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<sup>52</sup>Ibid.

<sup>53</sup>"Turkey Wants Turkmen Gas Pipeline to be Built Soon - Ankara," 20 June 1994, Xinhua and "Construction of Major Gas Pipeline Started in Russia," 21 March 1994, TASS. Both articles transmitted via America Online Service.

<sup>54</sup>MEED, 14 May 1993, p. 23; and "Construction of Major Gas Pipeline Started in Russia," TASS, Ibid.

Other major successes for Velayati have included gaining diplomatic recognition and economic trade with as South Africa and Qatar. A meeting with Georgian leader Eduard Shevardnadze in January 1993, yielded increased trade between the two nations in the form of supplies of Iranian natural gas and aluminum to Georgia, the construction of connecting pipelines and highways, modernization of Georgian ports and refineries by Iran, and the sale to Iran of Georgian-manufactured fighter-attack aircraft.<sup>55</sup> A Canadian-European consortium is attempting to begin work on the 1,100 MW Shazand power plant near the industrial city of Arak.<sup>56</sup> National carrier Iran Air is attempting to purchase 20 Boeing 737-400 passenger aircraft worth up to \$20 million.<sup>57</sup> Iran is also attempting to forge economic links with the Muslim Central Asian republics, where Tehran hopes to serve as the bridge between these land-locked nations and the Persian Gulf. Iran in conjunction Russia, Kazakstan, Turkmenistan and Azerbaijan have formed a Caspian Sea cooperative trade council. Since 1992, they have had shipping protocols covering ports on both the Caspian Sea and the Persian Gulf.

These economic initiatives may seem relatively minor and scattered, but they are important indicators to the direction Iran is taking. With deep economic problems, mounting domestic dissatisfaction, and a growing population, Tehran doubtless sees a need to reform and has a window of opportunity brought about by the rapidly changing

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<sup>55</sup>James Dorsey, Middle East International, 2 April 1993, p. 14.

<sup>56</sup>Ibid., p. 23.

<sup>57</sup>Ibid.



world situation. If the government does not take advantage of this soon -- by currency reform, decentralization and improved international business ties -- it may not be able to do so at all. Hard-line opposition leaders such as Ali Akbar Mohtashemi, the former ambassador to Syria and suspected organizer of the Hezbollah in Lebanon, are gaining increased attention in Iran.<sup>58</sup> Faced with a stagnant economy and vast social problems, Several Middle East experts believe Rafsanjani has ten to twenty years at most to reform Iran or risk the possibility of becoming a complete economic basket case.<sup>59</sup>

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<sup>58</sup>Reuters, "Iran's Hardliners Hope to Reorganize - Mohtashemi," America Online Service, 9 June 1994.

<sup>59</sup>New York Times, 8 April 1991, p. A11.

### III. IRAN'S SECURITY PERSPECTIVE

Iran has occupied a position of geostrategic significance for centuries. A one-thousand mile southern coastline that stretches from the Shatt-al-Arab across the Strait of Hormuz to the Indian Ocean puts Iran in a commanding position in the vital Persian Gulf, an area that holds sixty-five percent of the world's known oil reserves. Iran is bounded north by three former Soviet republics (Armenia, Azerbaijan and Turkmenistan) and by the Caspian Sea, east by Afghanistan and Pakistan, and west by Iraq and Turkey. No other nation borders both the resource-laden and predominantly Muslim Central Asian republics and the war-torn Caucuses. Further, Iran is situated astride the natural land and water routes between East and West. Traders and invading armies continually passed through and often stayed. The plateaus of central Iran have either formed an important part of several empires or served as a natural buffer between rival powers for centuries. Iran has both the means and ends of influence and expansion for outside powers.<sup>60</sup>

The discovery of oil in 1908 has increased its importance to the West. Iran has the potential to dominate the Gulf by virtue of its population size, its land area, its geostrategic position, and its material resources. However, Iran's potential probably will not be fully realized for much of the decade because of the profound economic and social trauma experienced during the Iranian Revolution and the eight year war with Iraq.<sup>61</sup>

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<sup>60</sup>For an indepth discussion on Iranian geostrategic perceptions, see Graham E. Fuller, The Center of the Universe: Geopolitics of Iran (New York: Westview Press, 1991).

<sup>61</sup>In his authoritative study, Iran's Economy Under The Islamic Republic, (London: I.B. Tauris, 1993), p. 327, Jahangir Amuzegar wrote: "Iran's economy during 1979-1992 [was] plagued with severe internal and external disequilibria. Reflecting these serious imbalances have been wide-spread wage/price distortions, a decline in the standard of living, the proliferation of parasitic activities, and a host of other socio-economic ills. While some of the disequilibria may have been caused by forces largely beyond the regime's control, there is no doubt that the government's monetary, fiscal, and foreign exchange policies were mainly responsible for exacerbating the impact of those forces."

Nevertheless, far from being of less importance to the West in the post-Cold War era, Iran's geographic and strategic position is dramatically enhanced.

The end of the Cold War has done nothing to increase Iran's security. Viewed from Tehran, the newly emerging international environment is hostile; the U.S. has emerged as the primary actor, unbalanced and pursuing its interests with little opposition. Iran is ill prepared to maneuver in this new environment. Its geostrategic leverage is hindered by its economic weakness and poor relations with the American government. Iran's few friends are marginal states -- Syria and North Korea, for instance -- that have either adjusted by seeking to accommodate Western preferences order or have become further isolated from the world community. This unenviable situation is bound to shape Iranian national ambitions and foreign policy in the new era. To determine Iran's potential foreign policy objectives and directions it is first necessary to identify where Tehran's geopolitical interests lie.

## **A. THE ARC OF CRISES**

Tehran is threatened both by internal unrest and unstable borders. An arc of crisis stretches from Iraq in the west through the Kurdish region to the Transcaucasus and eastward to Afghanistan. Threatening them all is the potential fragmentation of existing states in the region, whether Iraq, Azerbaijan, Tajikistan or Afghanistan. Iran's security could be jeopardized by the disintegration of any one of these states, for Iran possesses a highly factionalized population consisting of many distinct cultures.

### **1. Ethnic Instability**

Roughly half of Iran's population is composed of ethnic minorities; most of these -- Armenians, Azeris, Kurds, Turkomans, and Baluchis -- ring Iran's interior and straddle

borders with its neighbors.<sup>62</sup> There are smaller groups of Hazars, Kazakhs, Pathans, and Uzbeks as well. Increasing diplomatic ties with the newly created Cental Asian republics to the north could prove a double-edged sword. This would extend Iranian influence into new areas but at the same time could sharpen the ethnic self-consciousness of Iran's own minorities.

Iran's domestic stability has already been affected by conflicts on its borders. As a result of the Afghan war, Iran hosts about two million Afghan refugees; who constitute an economic burden and could prove to be a destabilizing factor if they do not return home. Azerbaijani independence raises the prospect of Azeri ethnic nationalism spreading to Iran. Azeri separatism resulted in the establishment of a short-lived republic in that province in 1920, and it surfaced again more recently in 1979-1980 over a struggle for power among the clerics.<sup>63</sup> In the northeast, Turkish ethnic consciousness could spread into Iran from the independent republic of Turkmenistan. Iran must also contend with pan-Turkism encouraged by Ankara's influence among the Turkish-speaking population. Finally, Iran is highly concerned with the Kurdish separatist movement in Iraq and the possible spread of such aspirations to the Kurdish population of Iran.<sup>64</sup>

## **2. The Northern Frontier**

The recent Soviet collapse presents Iran with both challenges and opportunities. While the threat of a Soviet invasion has disappeared, newly independent states in the Caucasus and central Asia are rife with instability and internal ethnic conflict. This

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<sup>62</sup>Eric Hooglund, "Iran's Security Policies: 'New Thinking' or New Means to Pursue Old Objectives," in Balance of Power in Central and Southwest Asia, Steve R. Dorr and Neysa M. Slater, eds. (Washington D.C.: Defense Academic Research Support Program, 1992), p. 58.

<sup>63</sup>Helen Chapin Metz, Ed., Iran: a Country Study, (Washington, D.C.: U.S. Government Printing Office, 1989), p. 323.

<sup>64</sup>Ibid., pp. 58-60.

presents problems which have larger connotations regarding both Iran's ethnic minorities and relations with Turkey. Although Tehran desires to extend its influence into the newly created republics through commercial ties, support for Islamic movements, and development of infrastructure links, Iran must also ponder the possible spread of political instability from these republics. Local civil and interstate wars could embroil Iran. Hence, Tehran will have to weigh the benefits of extending its influence into the new republics against its desire for secure borders and internal stability.

### **3. Russia**

A certain confluence of interests is already emerging between Moscow and Tehran, as evidenced in a series of economic and military agreements concluded after the Iran-Iraq War.<sup>65</sup> Both share a fear of instability in the new Islamic buffer zone between their two countries. Anxious to curb the spread of Islamic revivalism, Russia may find it useful to strengthen ties with Iran as a potential insurance policy. Iran, unable to obtain arms and technology from the West, may find ties to Russia promising and may have to moderate its policies in the Islamic republics to acquire them. Both countries also share a desire to minimize American influence within the region.

Beyond these shared interests, however, embryonic frictions are likely to set limits to the relationship. With its long-standing military, economic, and political ties to the new republics, Russia expects to be the dominant player in Central Asia and the Caucasus. This expectation is bound to vie with Iran's desire to replace the secular Slavic culture with one closer to Iran's Islamic model. Iran can be expected to play on the local population's fears of a revived Russian imperialism, while Russia has every reason to fear the spread of Islam from Tehran.

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<sup>65</sup>For a more detailed discussion on Iran's military arms connection with Russia see chapter III of this study.

#### **4. The Eastern Frontier**

Iran also has substantial interests to the east. Though significantly threatened by the Soviet invasion of Afghanistan, Iran was only marginally supportive of the Mujaheddin opposition. This is probably due to the fact that Afghanistan is predominantly Sunni and wary of Iranian expansion. However, with the Soviet withdrawal and subsequent collapse, Iran will likely attempt to increase predominance in this region in order to support stability and create links to their ethnic and linguistic cousins, the Tajiks.

Iran maintains political and economic ties with Pakistan. Islamabad's long-standing conflict with India, religious strife, nuclear program, strategic coastline and shared Baluchi minority are all reasons for Iranian concern and opportunities with its neighbor to the east.

#### **5. Iraq**

For much of the coming decade Iran's foreign policy is likely to focus on Iraq. None of the issues that led to the Iran-Iraq War have been resolved, and the two have yet to sign a peace treaty. Despite Saddam Hussein's verbal commitment to recognize the 1975 Algiers Accord boundary on the Shatt al-Arab, no further action has been taken by either side to formalize this agreement.

Although Iran does not want a revived Baath regime in Iraq, neither does it seek the collapse of Iraq, leading to ethnic or sectarian fragmentation. The latter would set a bad example for Iran's own ethnic communities. Thus, though Iran extended limited support to the Shiite insurgents in the south of Iraq after the 1991 Gulf War, such assistance was not sufficient to enable the insurgents to win. Tehran is likewise working against the establishment of an independent Kurdish state in the north of Iraq.

#### **6. The Persian Gulf**

It is expected that Iran will continue to regard the Gulf as the primary focus for its foreign policy. There is no doubt that Iran hopes to play the predominant role in the

Persian Gulf, predicated on such factors as its size, extensive shoreline, and lengthy history of regional influence. Although such a role may be regarded as natural in Iran, it will be seen as hegemonic on the Arab side of the Gulf.

Under Rafsanjani, Iran has moved to accommodate the GCC countries, easing tensions that reached a peak during the Iran-Iraq War, when most GCC states supported Iraq. Iran restored diplomatic relations with Kuwait; signed commercial agreements with Bahrain, Oman, Qatar, and the UAE; and began a rapprochement with Saudi Arabia.

The GCC states harbor lingering anxieties about Iran's power aspirations in the Gulf, the possible resurgence of its messianic ambitions, and Iran's hostility toward the GCC's Western allies. In the past, Iran has frequently overstepped the bounds of behavior acceptable to the GCC, causing serious setbacks in attempts at détente. Though tensions with Saudi Arabia have diminished, cooperation between Iran and the remainder of the GCC countries will be hampered by a number of factors: doctrinal divergence between Sunni and Shiite Islam, opposing views regarding the Islamic revival, sharp competition for dominance in the Gulf, and above all, divergence over oil policy.

## **B. IRAN'S RELATIONS WITH THE UNITED STATES**

There has been a tendency for Iran to regard the United States as anti-Islamic and to blame the ills of the region on western political, economic, military, and socio-cultural influences. The experience of American regional policy is often behind such attitudes. Thus, the United States has long ceased to be regarded as the symbol of decolonization and freedom. Rather, it has come to be viewed by large sectors of Iranian and Arab public as the inheritor of British imperialism and as an interventionist element in the region.<sup>66</sup>

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<sup>66</sup>Hermann F. Eilts, Islamic Fundamentalism and Islamic Radicalism, Prepared statement before the House Subcommittee on Europe and the Middle East, (Washington, D.C.: U.S. Government Printing Office, 1985), p. 41.

Iran's behavior toward the foreign presence in the Persian Gulf may be reflective of its Islamic character. Despite occasionally registering rhetorical swings, Iranian policy has been based on the fundamental principles of Khomeini's political philosophy and is influenced by Iran's historical legacy of interaction with foreign powers. The combination of these elements, together has produced a "historical vision" that is sensitive to great-power rivalries, especially to their occasional military presence in or around Iran.<sup>67</sup>

Recognizing that the presence of great powers in the vicinity has historically represented a major threat to Iran's territorial integrity and national independence, and faced with such potentially intrusive concerns, successive policy makers in Tehran have firmly refused to associate or identify with any great power blocs or their policies, much less their actual presence in the region. In turn, the rejection of the great powers, framed officially as "neither East, nor West," has come to be regarded as the fundamental foreign policy principle of Iran.<sup>68</sup>

Opposition to the great powers, however, has never led to the curtailment of oil sales or to a decline in the importation of food, military hardware, and machinery. In time, anti-superpower campaigns, especially the one against the United States, became a central symbol of Iranian freedom and sovereignty. Today, this policy reflects the historically deep seated quest of successive generations of Iranians to oppose the dependency of their country on superpower protection and goodwill. Thus, the "neither East, nor West" maxim, which is also enshrined in Articles 152 and 154 of the constitution, reflects a sort of "national contract."<sup>69</sup>

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<sup>67</sup>Ibid.

<sup>68</sup>Ibid.

<sup>69</sup>Ibid.



The combination of this phenomenon with the often harsh criticism of American policies around the globe, repeatedly voiced by Iranian leaders throughout the past decade, has apparently led a number of observers to conclude erroneously that Iran's hostility to the United States should be viewed as an important component of that country's foreign policy and that it will always remain a serious obstacle to normalization. In reality, it is prudent to recognize that many distinct reasons have come to account for Iran's anti-American bias. For one, Iranian leaders have often attempted to make it known that their opposition to the United States is a direct consequence of the perceived undue influence that America held in Iran under the Shah. The implication of this is that American behavior in the region is less important to U.S.-Iranian relations than the possibility of future American attempts to limit the political freedom of Iranian leaders.

Several conclusions can be drawn about the overall policy framework within which Iran has behaved thus far toward the United States, and is likely to continue in the near term. The essential ingredients of this framework include the following:

First, Iranian leaders have repeatedly asserted that if any American presence is ever used in a way that suggests the reassertion of American political influence in Iranian domestic affairs, the Iranian leaders will adamantly resist and do their best to frustrate all attempts.<sup>70</sup> Indeed, this often underreported but deep-seated Iranian concern about American motivations has characterized most editorials in the Iranian press throughout the past decade. Given Iran's lingering suspicions of this sort, it might be expected that any American move that Tehran might perceive as supportive of various Iranian religious or secular anti-government opposition forces active inside or outside Iran would immediately

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<sup>70</sup>See for example, Rafsanjani and Khameni's remarks to this effect in Tehran's daily newspapers Kayhan, 11 April and 22 June 1991; and Abrar, 18 March, 6 July, and 3 August 1991.

prompt Iran's Islamic authorities to revert back to their earlier radical opposition to the United States.

Second, despite their harsh criticism of American policies, especially in regard to the Palestinian issue, Iran has not automatically opposed American political, economic, or military undertakings elsewhere in the Middle East or in the Persian Gulf region in the period since Iraq's defeat. Instead, as in the past, Iran is likely to continue judging these initiatives by virtue of their direct or indirect support for or opposition to Iran's basic national interests. Similarly, Iranian decision makers tend to view the presence of foreign military forces as an unfortunate feature of the Middle Eastern political reality and blame the region's feeble Arab and non-Arab ruling elites for this situation. Thus, the mere presence of American forces in the Persian Gulf has not and is not likely to push Iran into adopting such an extreme anti-U.S. position any time in the foreseeable future as to resort to violence or acts of subversion.<sup>71</sup>

In this connection, possible future Iranian responses should also be judged in light of how Iran has dealt with similar situations. Since 1949, for example, the United States has maintained a military presence in Bahrain. The island country's population is 70 percent Shia Muslim. Iran has occasionally voiced a claim that Bahrain should be one of its provinces, yet has nevertheless refrained from criticizing or condemning American presence. It should also not be noted that, since at least the sixteenth century, Iran has been used to witnessing military and economic presence of successive foreign powers -- the British, Dutch, and Portuguese -- in the Persian Gulf. Realizing that these superior forces were clearly beyond its control, Iran has historically attempted to render them

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<sup>71</sup>Shireen T. Hunter, Iran After Khomeini, p. 126

harmless to its sovereignty, as much as it could, by attempting to find common grounds for cooperation in each case.<sup>72</sup>

The unfolding of events since the 1991 Gulf War and the emergence of new power relationships in the region have forced the Rafsanjani government to confront the issue of policy formulation as it applies to American presence. Although, it is still too early to draw any conclusions as to which direction Tehran is to take in this matter, various formal and informal policy statements coming out of Iran leave little doubt that Tehran is impressed by American determination to act against regional aggression.<sup>73</sup>

At the same time, and unlike before, the United States has come to be taken very seriously in Tehran, as elsewhere in the Middle East. Divided between historical suspicion of neighboring Arab states and its lingering mistrust of American intentions, Iranian decision makers have apparently concluded that the future dangers or benefits of American presence in the immediate region are henceforth going to be substantial and real. This realization has in turn mandated caution, circumspection, and vigilance as indispensable elements in the future conduct of Iranian foreign policy in the region.<sup>74</sup>

Iranian decision makers have also come to recognize that, under the postwar military and political circumstances in the region, their blanket opposition to the American presence makes little sense. In view of this new situation, the Iranian state controlled media have gradually become much less forceful in their anti-American rhetoric. For this

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<sup>72</sup>For a comprehensive treatment of this subject, see Graham E. Fuller, The Center of the Universe: Geopolitics of Iran, 1991.

<sup>73</sup>Several statements concerning this subject can be found in various speeches of President Rafsanjani and Foreign Minister Velayati. Two characteristic pieces include, "Iran - Article on U.S. Policies, Politics, and the Economy," Tehran SALAM, 12 June 1994; and George Nader, "An Exclusive Interview with Dr. Ali Akbar Velayati," Middle East Insight, Vol. 7, No. 5, pp. 5-6.

<sup>74</sup>Claude van England, "Iran Looks to Europe to Counter U.S. Influence," Christian Science Monitor, 8 May 1991, p. 1.

and many other reasons, Iranian public opinion has apparently come to accept the Islamic leadership's considerably less bellicose posture toward the United States with more ease than otherwise expected in the West.<sup>75</sup>

In view of the above considerations, Tehran is at present attempting to refine several broad distinctions in its response to the present situation in the Gulf. In this effort, it has come to adopt a multifaceted policy of responding differently to each dimension. Some important elements of this policy have thus far become apparent. First, contrary to common expectations, as far as economic and commercial affairs are concerned, Iran apparently sees little reason to oppose or condemn America's present or likely future involvement and presence in the region. Instead, Tehran has publicly supported and is likely to cooperate in efforts to strengthen trade, investment, and other joint economic activities between the and the United States. The same attitude also applies to Japan and the Western European powers.<sup>76</sup> Indeed, closer cooperation between the local actors and the United States in this sphere seems to be regarded as a potentially positive outcome of the current American presence and as complementary to Iran's economic objectives in the region. Many Iranian leaders seem to believe that such multilateral cooperation will extend the spill-over effects of American economic presence to southern Iranian islands and seaports and, in time, will lead to an increased American and European presence in the region.

Second, American companies will be enticed to relocate to southern Iranian ports if and when the destabilizing effects of internal political, tribal, or boundary disputes in these Sheikdoms would facilitate such relocations. Finally, as the country with the largest coastline in the Persian Gulf, Iran has, at least since the 1950s, maintained that, among the

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<sup>75</sup>Ibid.

<sup>76</sup>Ibid.

regional players, it should have the greatest say in political affairs of this region. Tehran is consequently opposed to any undue foreign political presence in the region, if that presence is judged to imply the denial of Tehran's conceived leadership role. With due respect to this essential precondition, Iran can be expected to tolerate and in time accommodate with, at least unofficially, U.S. political presence in the area.<sup>77</sup>

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<sup>77</sup>Shireen T. Hunter, Iran After Khomeini, pp. 80, 135-138.

#### IV. A CRITICAL LOOK AT IRAN'S ARMS BUILDUP

As the Western press and Middle East leaders warn of a troublesome military buildup in Iran, the Rafsanjani government points to a new arms race in the Persian Gulf that they say justify a reasonable effort to defend themselves. Following two devastating wars in the region, Iranians say another threat is posed to them by huge arms sales to Gulf Arab states from the United States, Britain, and France.<sup>78</sup>

##### A. THE PERSIAN GULF ARMS BALANCE

To say that the Persian Gulf is a volatile region would be an understatement. In addition to numerous incidents of low intensity conflict, there has been two major wars since 1980 -- the eight-year Iran-Iraq War initiated by Saddam Hussein's invasion of Iran and the 1991 Gulf War in which a U.S.-led coalition turned back Iraq's invasion of Kuwait. Tremendous population growth (in Iran annual growth rates have reached four percent), religious and ethnic rivalry, uneven distribution of wealth all contribute to regional hostilities. This hostile climate and the tremendous wealth generated by petroleum sales have combined to make the Middle East the world's largest regional arms market for the past quarter-century.<sup>79</sup>

With annual sales in the region of \$17 billion, traditional Middle East suppliers such as the U.S., China, North Korea, Western Europe and Russia are all eager for a piece of the action. Further, despite low oil prices and unusual budgetary pressures, the Gulf states give no hint that they are about to curb their appetite for new hardware. Estimates of

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<sup>78</sup> Claude van England, "Iran on Military Renewal: Keeping Up With the Gulf," Christian Science Monitor, 4 March 1993, p. 7.

<sup>79</sup> Yahya M. Sadowski, Scuds or Butter?: The Politics of Arms Control in the Middle East, (Washington D.C.: The Brookings Institution, 1992), pp. 1-2.

potential sales to the region over the next decade range as high as \$65 billion. This is hardly what George Bush had in mind in March 1991, a week after the Gulf War ended, when he told the Congress, "it would be tragic if the nations of the Middle East and the Persian Gulf were now, in the wake of war, to embark on a new arms race."<sup>80</sup>

When the "Big Five" arms supplier countries (U.S., Britain, France, Russia, and China) failed to agree on practical measures to curb sales to the Middle East, the attitude in Washington on arms control soon shifted to one of cynical pessimism. Some such as Richard Perle, a former assistant secretary of defense, argued that arms control in the Middle East was impracticable and instead urged that the United States use arms sales to its allies to construct a favorable balance of power in the region.<sup>81</sup> Furthermore, with Western arms manufacturers in deep financial difficulty due to major domestic defense cut backs, it soon became apparent that Bush's post-Desert Storm peace initiative for the Middle East would never come to fruition.

According to the Arms Control Association (ACA), an independent watchdog agency, the U.S., has since the end of the Gulf War, announced \$32.3 billion in new arms transfers to eight Arab Gulf states. In particular, Washington has authorized the sale of \$37 million in arms to Bahrain, \$2.17 billion to Egypt, \$2.85 billion to Kuwait, and \$25.7 billion to Saudi Arabia.<sup>82</sup> Western Europe is also exporting military technology to the Gulf region. Earlier this year, Saudi Arabia announced the purchase of forty-eight Tornado aircraft from Britain, and the United Arab Emirates is to procure 436 Leclerc

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<sup>80</sup>Don Oberdorfer, "Bush's Talk of a 'New World Order': Foreign Policy Tool or Mere Slogan?" Washington Post, 26 August 1991, pp. A31, A36.

<sup>81</sup>Yahya M. Sadowski, *Ibid.*, pp. 4-5.

<sup>82</sup>Claude van England, *Ibid.*

tanks from France. Kuwait, in an apparently strategic move, has signed defense pacts and arms agreements with four of the five permanent nations on the UN Security Council.<sup>83</sup>

A 1992 Congressional Research Service (CRS) report entitled "Conventional Arms Transfers to the Third World, 1985-1992," claims that total arms purchases by Iran's immediate Gulf neighbors (Iraq, Saudi Arabia, and the five small members of the Gulf Cooperation Council) were \$43 billion between 1989 and 1992, or an estimated 6.5 times that of Iran's arms expenditures over the same period. Based on the number of agreements signed during this period, the CRS claims that Iran's arms purchases amounted to \$6.7 billion or an average of \$1.68 billion a year. This stood well below the \$2 billion a year figure approved by the Iranian Majlis for its five-year economic plan begun in 1991.<sup>84</sup>

Saudi Arabia has ranked as the world's principal buyer of weapons on the international market since the beginning of the 1980s. During this time, it is estimated that the Saudi government purchased \$46.7 billion worth of weapons.<sup>85</sup> Iran, which has been labeled along with Israel and Saudi Arabia as one of the biggest threats to Middle East arms control, ranked a distant third during the last four years of the Iran-Iraq War. Iran has since fallen to fifth place in the world in terms of weapons purchases.<sup>86</sup>

Some critics claim that Iran does not seek military equality with its neighbors; rather it will continue its present arms buildup until it achieves dominance in the Persian Gulf. These claims are made despite the evidence that Iran is rapidly falling behind Saudi Arabia

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<sup>83</sup>James Wylie, "Iran - Quest for Security and Influence," Jane's Intelligence Review, July 1993, p. 311.

<sup>84</sup>"Arabs Are Outspending Iran on Arms," Iran Times, 10 September 1993, p. 15.

<sup>85</sup>Robert Pear, "Arms Sales to Third World Said to Decline Sharply," New York Times, 21 June 1990, p. A10.

<sup>86</sup>Robert Pear, *Ibid.*



in terms of arms capability. Further, such claims conveniently ignore the fact that Iran is switching its baseline force for the third time in as many decades. Iran's military has gone from being equipped by largely American manufactured arms in the 1970s, to Chinese and European-made arms in the 1980s, to mainly Russian supplied weapons today. This procurement pattern disrupts Iran's military training programs and supply systems, adding to the time and cost needed to accomplish integration of these disparate weapon systems into an effective fighting force.

## **B. A HISTORICAL PERSPECTIVE ON THE IRANIAN ARMS BUILDUP**

Today, Iran is in the midst of an estimated five-year arms buildup that started in 1991. Iran is expected to spend between \$10 and \$14.5 billion to buy arms during this period. The figure is far less than the \$70 billion Iraq spent on arms during the 1980s, but with weapons from the former Soviet Union selling at fire-sale prices, Iran's purchasing power is fairly high.<sup>87</sup> The full extent of the Iranian buildup began to be reported in the West in early 1992. According to the International Institute for Strategic Studies (ILSS), Iran placed \$4 billion worth of orders in 1990-91 following the \$3.2 billion it spent the year before to buy armaments from China, North Korea, Russia, and Eastern Europe.<sup>88</sup>

Taken from a historical perspective, Iran's arms buildup is not that extraordinary. Following the 1971 British withdrawal in the Gulf, shah Mohammed Reza Pahlavi, backed by American support, desired for Iran to play a greater role in regional security. Further, the Nixon Doctrine, enunciated in 1969, sought to encourage American allies to shoulder

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<sup>87</sup>George D. Moffett III, "Resurgent Iran Again Challenges Western Interests," Christian Science Monitor, 19 November 1992, pp. 1,4.

<sup>88</sup>Pamela Pohling-Brown, "Middle East Sales Boom Expected," International Defense Review, (February 1993), p. 145.

greater responsibility for regional security. Then, during his 1972 visit to Iran, Nixon took the unprecedented step of allowing the shah to purchase any conventional weapon in the United States arsenal in the quantities the shah believed necessary for Iran's defense.<sup>89</sup>

Military expenditures under the shah were high and unpopular. Iranian society in general never fully shared the shah's commitment to a military buildup that drained the treasury of scarce resources. Even after the 1974 rise in the price of petroleum, a disproportionately high percentage of the government's annual budget was occupied by military spending. Estimates prepared by the United States Arms Control and Disarmament Agency (ACDA) show, that as a percentage of GNP, military expenditures during the 1970s averaged between eleven and fifteen percent. This compares to the estimated one-and-a-half to three percent of GNP spent by Iran today on military hardware. Further, when placed in constant dollars and computed over time, spending on present imports are less than what occurred between the mid-70s to the end of the Iran-Iraq War in 1988.<sup>90</sup>

Military expenditures remained high throughout the remainder of the shah's reign. However, following his sudden ouster in 1979, a sharp decline in expenditures occurred. Figures collected by the Stockholm International Peace Research Institute (SIPRI) show that total military expenditures declined from a high of \$14.6 billion in 1976 to \$5.2 billion in 1983. Not surprisingly, the sharpest decline occurred in 1979, when the revolutionary regime either canceled or postponed contracted purchases. The most notable cancellations were the Iranian navy's planned acquisition of six American made Spruance-

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<sup>89</sup>Iran: A Country Study, Federal Research Division, Library of Congress, (Washington D.C.: U.S. Government Printing Office, 1989), p. 40.

<sup>90</sup>Claude van England, *Ibid.*

class destroyers and three Tang-class submarines. The Iranian air force also canceled big-ticket items, including 160 F-16 fighters and seven Boeing E3A-AWACS aircraft.<sup>91</sup>

This downward trend in military expenditures was rapidly reversed, however, with the revolutionary government's first war budget in 1981. According to SIPRI, defense expenditures in FY 1981-82 may have been somewhere between \$4.4 and \$13.3 billion; if so, the latter figure would have represented 41.6 percent of Iran's total budget for that period. Large expenditures for Iran's armed forces continued through out the 1980s as Iran fought a grueling war with Iraq. According to some estimates, military expenditures represented 19.7 percent of central government expenditures in 1980 and 29.9 percent in 1984.<sup>92</sup>

### **C. IRAN'S CURRENT PROCUREMENT NETWORK**

Iran's current arms transfer relationships began during the Iran-Iraq War when it was cut off from its traditional suppliers in the United States and Britain. Despite the efforts of the U.S. State Department to bring pressure to bear on both allies and neutrals to stop sending military supplies to Iran, the Iranians continued to obtain supplies from various sources. Support for Iran ranged from all over the Third World, reflecting the rise in arms manufacturers and exporters during this period. However, it is the contributions of China, North Korea, and Russia (formerly the USSR) that are most significant when addressing the subject of Iranian arms suppliers since the revolution.

#### **1. China**

As a country which shares Iran's disdain for an American dominated world, China has been motivated by both financial gain and by geostrategic considerations in its arms deals

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<sup>91</sup>Iran: A Country Study, Ibid.

<sup>92</sup>Ibid., pp. 281-282.

with Iran. The arms relationship has involved purchases of aircraft, missiles, naval patrol aircraft, and of great concern to much of the world community, nuclear technology and trade.

The Iran-Iraq War began at a time when Iran was looking for new sources of arms and China was beginning to export arms in order to fund the modernization of its armed forces. R. Bates Gill of Johns Hopkins University, notes that the China "has been on an aggressive campaign to increase its share of the world's arms trade ever since the early 1980s, when it began exporting arms to both sides of the Iran-Iraq War."<sup>93</sup> In fact, China was one of Iran's primary weapons suppliers during the early phases of the war before the Soviet Union began to increase its exports to Iran.<sup>94</sup>

Key reasons for Iran turning to China for arms purchases include low purchase and spare prices, low risk technology, and China's willingness to sell its weapons. China has made significant gains in weapons technology and now ships weapons which, though they lag in quality behind that of the West and the former Soviet Union, are at the highest levels of sophistication by Chinese standards.<sup>95</sup>

A 1988 CRS study placed Chinese arms deals with Iran at \$505 million between 1980 and 1983, rising to \$2.5 billion between 1984 and 1987. The extent of this arms relationship is reflected in the fact that seventy-four percent of Chinese arms agreements made during this period were conducted with either Iran or Iraq.<sup>96</sup> However, the full

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<sup>93</sup>R. Bates Gill, "Curbing Beijing's Arms Sales," *Orbis*, (Summer 1992), p. 379.

<sup>94</sup>Richard F. Grimmett, "Trends in Conventional Arms Transfers to the Third World by Major Supplier, 1980-1987," *Congressional Research Service Report*, 88-352F, 9 May 1988, p. 61.

<sup>95</sup>R. Bates Gill, *Ibid.*, p. 382.

<sup>96</sup>*Ibid.*

extent of the arms sales to Iran was strongly denied by China throughout the early 1980s since it was able to export arms through North Korea to cover its sales to the region.

Major conventional weapons transfers from the China to Iran during the 1980s included at least 150 F-6 (Chinese MiG-19) and F-7 (Chinese MiG-21) fighter aircraft, 750 Type 59 (Chinese T-54) Main Battle Tanks, 300 Armored personnel Carriers, 1500 122mm and 130mm artillery pieces, thousands of anti-tank missiles, hundreds of CSA-1 and HY-5 SAMs, and more than 200 silkworm missiles.<sup>97</sup>

Following the end of the Iran-Iraq War, Chinese arms transfers to the region took a slight down turn. However, at \$1.9 billion in sales between 1988 and 1991, it was enough for China to fall to second behind the former Soviet Union as top Iranian arms supplier.<sup>98</sup> Today, Iran's purchases from China are estimated at \$5 billion since 1990.<sup>99</sup>

Iranian conventional arms purchases from China since 1991 include 72 F-7, 100 F-8 II all-weather aircraft, ten Hegu Class fast attack missile craft, Silkworm missiles and launchers, and HQ-2B surface-to-air missiles.<sup>100</sup> It has been reported that Iran is presently negotiating with China to buy rocket propelled sea mines. According to the weekly newspaper, Defense News, a senior U.S. defense official claimed that Iran was negotiating to buy China's EM52 mine, which can be planted on the sea floor where it is hard to

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<sup>97</sup>Ibid., p. 388.

<sup>98</sup>Richard F. Grimmett, "Conventional Arms Transfers to the Third World, 1984-1991," DISAM, Vol. 15, No. 1, (Fall 1992), p. 31.

<sup>99</sup>Stephen J. Blank, Challenging the New World Order: The Arms Transfer Policies of the Russian Republic, Report Prepared for the Strategic Studies Institute, (Carlisle Barracks, Pa.: U.S. Army War College, 1993.), p. 51.

<sup>100</sup>Paul Beaver, "China's Rich Harvest," Jane's Defense Weekly, 13 February 1993, p. 159.

detect. The EM52 can be deployed as deep as 100 meters which allows it to be used in almost the entire Persian Gulf.<sup>101</sup>

The area of greatest concern to Washington about Chinese arms transfers focus on nuclear, biological, and chemical (NBC) weapons, and the means to deliver them, such as missiles and missile technology. Rumors of Chinese M-family of Short Range Ballistic Missiles (SRBMs) in the region. Despite Chinese denials, intelligence sources reported the delivery to Syria of several M-9 missiles in late 1992.<sup>102</sup>

It is reported that in the summer of 1985, Iran approached both North Korea and China looking for ballistic missiles. Rumors soon spread about the presence of Chinese M-family Short Range Ballistic Missiles in the region. In 1989, there were numerous reports of Iran's arms purchases via Syria with suspicions that Chinese supplied Scud-C missiles, en route from North Korea to Syria, might ultimately be destined for Iran. Throughout 1989 and into 1993, there were numerous reports in the U.S. media naming Syria as a conduit for arms to Iran and Iranian arms to the Hezbollah in Lebanon. It has since been widely confirmed that China had indeed supplied Iran with technology to produce its own Scud variant named the Iran-130.<sup>103</sup>

## **2. North Korea**

The relationship between North Korea and Iran grew during the Iran-Iraq War as well, and was closely tied to Iran's Chinese relationship. North Korea concluded arms deals with Iran early in the war, selling light arms and T-62 tanks in 1981, and F-6 fighters

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<sup>101</sup>"...But Iran May Get Hard-to-Find Mine...", Iran Times, 28 January 1994, p. 15.

<sup>102</sup>Ballistic Missile Proliferation: An Emerging Threat, 1992, A Pentagon Paper Generated by the Strategic Defense Initiative Organization, (Washington D.C.: Government Printing Office, 1992), p. 36.

<sup>103</sup>Asian Defense Journal, Ibid., p. 32.

and SA-2 SAMs in 1985.<sup>104</sup> North Korean military assistance and arms transfers since the War have included purchases of Scud missiles and midget submarines, technology transfer assistance in nuclear power, and assistance in building midget submarines. In 1988 Iran received approximately 100 Scud-Bs from North Korea with another seventy Scud B and C missiles received in 1991.<sup>105</sup> Egyptian sources reported that North Korea had exported eight midget submarines to Iran in 1992, and that the two countries had agreed to cooperate on the building of twenty-five additional midget submarines.<sup>106</sup>

American officials believe that North Korea has deferred plans to sale its NoDong 1 missile to Iran due possibly to the current U.S./North Korea showdown or from a problem with the weapon itself. The NoDong, which theoretically has the range to strike Israel from anywhere in Iran, has only been test fired once. It has been widely expected that North Korea would ship missiles to Iran where they could be tested at full range inside the country.<sup>107</sup>

### **3. Russia (USSR)**

Mutual interests underlie a growing arms trade relationship between Russia and Iran. The Year 1987, marked the turning point in their relationship. This period saw the Iran-Iraq War coming to a close just as a growing confrontation between Iran and the United States was occurring. The Soviet Union saw these turn of events as an opportunity to improve its economic and diplomatic ties with Tehran. In early August 1987, the two

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<sup>104</sup>Kamran Mofid, The Economic Consequences of the Gulf War, (London: Routledge, Chapman and Hall, 1990), p. 101.

<sup>105</sup>Tony Banks and James Bruce, "Iran Builds Its Strength," Jane's Defense Weekly, 1 February 1992, p. 159.

<sup>106</sup>"DPRK said to Export Midget Subs to Iran," Choson ILBO, 27 July 1993.

<sup>107</sup>"New NoDong Missile May be on Hold...", Iran Times, 28 January 1994, p. 15.

parties signed a series of economic agreements covering the building of a new oil pipeline, power plants, steel mills, oil exploration in the Caspian Sea, and a second railway link. Starting in 1988, the Soviets began selling arms to Iran, but it remained steadfast in its support of Iraq, supplying Iran primarily with anti-aircraft missiles. However, by 1991, Moscow had become Iran's principal arms supplier concluding \$4.8 billion in arms transfer agreements during this period.<sup>108</sup>

The collapse of the Soviet Union in 1991 enabled Iran to go on a shopping spree, purchasing a large number of front line aircraft not previously exported at relatively low prices. Between 1991 and 1992, Iran purchased forty-eight MiG-29s, twenty-four MiG-31s, twenty-four SU-24s, fifty-two MiG-27s, twelve TU-22Ms and four IL A-50 AEW aircraft from Russia.<sup>109</sup> Other Iranian weapon purchases of note during this period included, three Kilo-class diesel electric submarines, 200-250 T-72 Main Battle Tanks, missile launchers and long range guns, and an agreement by Russia to rehabilitate the 120-130 Soviet model Iraqi aircraft flown to Iran during the 1991 Gulf War.<sup>110</sup>

As part of their "strategic partnership" in military and economic cooperation, Russia will help Iran build a nuclear electric plant worth \$880 million, a nuclear research reactor, and train Iranian scientists in Moscow.<sup>111</sup> This partnership is likely to continue into the future due to Iran's inability to make Western purchases. The American led export embargo against Iran ensures that Tehran will remain dependent on Russia for spare parts, technical support and maintenance.<sup>112</sup> This "relationship of convenience" is made all the

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<sup>108</sup>Richard F. Grimmett, *Ibid.*, p. 31.

<sup>109</sup>Pamela Pohling-Brown, *Ibid.*, p. 145.

<sup>110</sup>*Ibid.*, p. 49.

<sup>111</sup>Pamela Pohling-Brown, *Ibid.*, p. 40.



more disturbing due to persistent reports that former Soviet nuclear scientists or warheads are making their way to Iran.<sup>113</sup>

#### **D. IRAN'S INDIGENOUS ARMS INDUSTRY**

During the early 1970s arms agreements were signed with seven major American and British defense contractors involving large scale transfers of technology and the development of a major nuclear network. By 1979, Iran's military industries could manufacture artillery pieces, large caliber weapons, rockets, small arms, and spare parts for U.S. built M-47 and M-48 tanks and British Chieftains.<sup>114</sup>

One of the benefits gained by Iran as a result of the Iran-Iraq War was the tremendous growth of its indigenous arms industry. During this period Iran's largely American trained and oriented arms industry was forced to learn new weapon systems as China and North Korea replaced the American and British arms suppliers.<sup>115</sup> It is suspected that Chinese specialists taught the Iranians "reverse engineering" for its American made F-4s and F-14s, and Iran is now believed to be capable of producing spare parts not only for these aircraft, but for other armaments as well.<sup>116</sup>

As the number of arms exporters in the Third World expanded during the 1980s, Iran was able to import expertise from these new suppliers to help build its own industries. Argentina, Brazil, Taiwan, and Pakistan provided help to Iran in developing its domestic

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<sup>112</sup>John Jordan, "The 'Kilo' Class Submarine," Jane's Intelligence Review, September 1992, pp. 429-431.

<sup>113</sup>Ibid.

<sup>114</sup>Edgar O'Ballance, The Gulf War, (London: Brassey's Defence Publishers, 1988), p. 158.

<sup>115</sup>Ibid.

<sup>116</sup>Pamela Pohling-Brown, Ibid., p. 142.

arms industry.<sup>117</sup> Today, Iran possesses at least 240 state owned plants that produce military equipment. In addition there are an estimated 12,000 privately owned workshops manufacturing military related products. It is believed that Iran is currently developing its own fighter aircraft, ballistic missile technology, a sixty-knot hovercraft, patrol boats, naval mines, and is jointly producing midget submarines with North Korea.<sup>118</sup> Also, small arms ammunition and assorted "non lethal" equipment is produced in country, and there is a limited domestic naval shipyard capacity. Iranian factories are also capable of undertaking extensive modifications on purchased equipment.<sup>119</sup>

With considerable foreign assistance, mostly provided by China and North Korea, Iran has also undertaken an indigenous program to produce ballistic missiles. U.S. officials confirmed last year that China was supervising the construction of Silkworm and M-type missile facilities. The Iran-130 (or Nazeat) a 130 km, road mobile, solid propellant, single-warhead missile may have entered service in 1990. Also, there may be a licesenced production of Chinese designed M-series IRBM with a range of 1000km. Additionally, the North Korean's are suspected of providing assistance in the construction of Scud B and C ballistic missile facilities.<sup>120</sup>

#### **E. REGIONAL IMPLICATIONS**

In contrast to the massive arms buildup under the Shah, Iran seems to have a coherent arms procurement strategy in place today. In military terms the sale of the Backfire bombers and associated aircraft, air defense, submarine, and reconnaissance systems

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<sup>117</sup>Amit Gupta, "Third World Militaries: New Suppliers, Deadlier Weapons," *Orbis*, 37, (Winter 1993), p. 65.

<sup>118</sup>Tony Banks and James Bruce, *Ibid.*, p. 158.

<sup>119</sup>*International Military and Defense Encyclopedia*, 1993, p. 1348.

<sup>120</sup>*Ballistic Missile Proliferation: An Emerging Threat*, 1992, *Ibid.*

apparently is designed to give Iran an integrated anti-ship capability, particularly against American carrier battle groups. Thus, they mark an open challenge either to deny others the seas around Iran or to go for command of at least key zones of those waters. Western analysts estimate that these acquisitions have boosted Iran's combat capabilities by as much as forty percent.<sup>121</sup>

Iran's acquisition of Russian Backfire bombers and Kilo-class submarines have received the most attention. The Backfire bomber can employ AS-4 air-to-surface missiles, AS-16 short-range attack missiles, and up to eighteen 500 pound free-fall bombs. This weapons platform constitutes a major threat to maritime traffic and naval forces throughout the Persian Gulf and Arabian Sea due to its 4000 km combat radius and its ability to perform anti-ship, conventional, and nuclear attack missions.<sup>122</sup>

Iran received its second of three Kilo-class submarines on in August 1993 at Bandar Abbas. Named the Nuho, it will eventually be transferred to the North Arabian Sea port of Chah Bahar where there is presently underway construction of a submarine berthing area that is due for completion in 1995. The Kilos, which cost \$250 million apiece, are equipped with mines, up to eighteen torpedoes, and possibly anti-aircraft missiles for self defense. The seventy-four meter, 3000 ton submarines are true ocean going vessel designed from the outset for extended blue-water missions (they have a range of 6,000 nm at seven to eight knots while snorkeling).<sup>123</sup>

Many analysts believe Iran wants the Kilos chiefly for use as mine-laying vessels. The ability to lay mines in covert operations around the Straits and in the busy shipping

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<sup>121</sup>Jane's All the World's Aircraft, 1992-93, Ibid.

<sup>122</sup>Ibid.

<sup>123</sup>Joris Janssen Lok, "Iran's Second 'Kilo' Delivered," Jane's Defence Weekly, 14 August 1993, p. 8.

channels inside the Gulf presents a threat which would be difficult to counter; previously, the U.S. Navy has relied on a combination of surface patrols and aerial surveillance to prevent mine laying operations by surface craft, but these would be virtually ineffectual against submarine operations.<sup>124</sup>

With Iran's developing sea-denial capability, oil traffic seeking egress through the narrow Strait will be much more vulnerable now than traffic was against Iranian fast patrol craft of five and six years ago.<sup>125</sup> The presence of large amounts of modern weapons only increases the likelihood of armed conflict between Iran and its neighbors. However, it must be pointed out that Iran needs the Strait to access its own ports. It would have no desire to blockade the Strait unless it was itself unable to export or import through it. As a more practical manner, Iran might repeat what it did in the mid-1980s, mine the sea lanes on the Arab side of the Persian Gulf to interfere with Arab shipping and attack Western navies.<sup>126</sup>

Even with these new acquisitions Iran will probably not be strong enough to sustain a significant invasion of its neighbors, but it will be strong enough so that no Gulf state will feel free to challenge it on a wide range of policy issues.<sup>127</sup> Although it appears unlikely that Iran will attack Saudi Arabia or other GCC states, its buildup may embolden Iran to try to pressure the GCC over oil prices and other regional issues. The bottom line is that Iran's improved military capabilities will multiply the potential lethality of any conflict, and greatly complicate military planning. By the turn of the century, Iran will be able to use its

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<sup>124</sup>Stephen J. Blank, *Ibid.*, p. 50.

<sup>125</sup>James Wylie, *Ibid.*, p. 312.

<sup>126</sup>"...But Iran May get Hard-to-Find Mine...", *Iran Times*, 28 January 1994, p. 15.

<sup>127</sup>George Moffett III, *Ibid.*, p. 4.

sizable arms stockpile, to dominate Persian Gulf waters and threaten commerce in the Strait of Hormuz.

## V. AMERICAN SECURITY INTERESTS IN THE MIDDLE EAST

### A. COLD WAR INTERESTS

During the Cold War, the United States pursued a Middle East policy that was influenced by perceptions of Soviet objectives in the region and the threat they posed to American interests there. The interests pursued by the U.S. included the following: (1) Checking Soviet influence as part of an overall containment strategy; (2) Preserving the unrestrained flow of oil resources at market rates; and (3) preserving the security and stability of friendly nations.<sup>128</sup>

Other concerns have included industrial development, opportunities for foreign investment, and unrestricted access to markets for American exports. The imperative of an American "missionary spirit" developed in the form of commitment to democratization, liberalism, and human rights. A legacy of religious and cultural ties also exists.<sup>129</sup> Each of these received varying emphasis during successive Administrations, but as collateral interests. Actual American policy tended to reflect these interests only when the first three basic ones were perceived as secure.<sup>130</sup>

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<sup>128</sup>These three long standing objectives were defined as such by Secretary of State George Shultz and by Under Secretary of State for Political Affairs Michael H. Armacost, in statements before the Senate Foreign Relations Committee, on 16-17 June 1987. U.S. Department of State, U.S. Policy in the Persian Gulf, Special Report No. 166, July 1987, pp., 10.

<sup>129</sup>The area encompassing the Levant, Israel, and the Arabian Peninsula gave birth to the world's three great religions: Islam, Christianity, and Judaism.

<sup>130</sup>President Carter's efforts to condition relations on a state's human rights record, when applied to his relationship with Reza Shah of Iran, is such an example. James A. Bill, in The Shah, the Ayatollah, and the U.S., discounts the role of Carter's human rights policy in pressuring the Shah to make political and economic reforms. In fact, Carter failed to condemn the Shah's human rights abuses, particularly the Black Sunday incident, which only convinced government opposition leaders that the U.S. condoned these actions. U.S. interests in Iran as a regional pillar against communist expansion, an interest inherited from President Nixon's "Twin Pillar" strategy,

During much of the Cold War period, the USSR was viewed as the principal long term threat to Western access to the Persian Gulf oil and as the main threat to the security of friendly regional states. It was feared that the Soviets might achieve a monopolistic control of the Gulf oil reserves. In 1957, Secretary of State John Foster Dulles testified before the Senate that the most credible Soviet threat to Western Europe, without risk of open war, was control of the Persian Gulf oil fields.<sup>131</sup> The view of the threat endured throughout the Cold War.

Regional instability was also viewed as a threat to American interests in the region. The Middle East's importance, coupled with chronic instability tended to draw considerable American attention to the internal affairs of Persian Gulf states. Sources of political instability such as internal dissension, secular and religious radicalism, economic hardship, and even burgeoning democratic movements could undermine regimes or threaten shifts in superpower alignment, if exploited by the Soviets. This situation led to the formation of close associations with certain conservative Persian Gulf regimes, whose continued stability and alignment with the West were critical to the policy of Soviet containment.<sup>132</sup> With the Soviets poised to exploit such opportunities, several American presidents felt compelled to attempt to manage or control political instability, some with more success than others.<sup>133</sup>

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supplanted Carter's "missionary" agenda. See also, Gary Sick, All Fall Down: America's Tragic Encounter with Iran (New York: Random House, 1985).

<sup>131</sup>Marcy Augmon, Post-Cold War U.S. Security Strategies for the Persian Gulf. A Rand Study. (Santa Monica, CA: Rand, 1993), p. 8.

<sup>132</sup>Ibid.

<sup>133</sup>For a comprehensive treatment of prior American policy in the Middle East see, George Lenczowski, American Presidents and the Middle East. (Durham, N.C.: Duke University Press, 1990).

Great Britain was largely responsible for security in the Persian Gulf until 1971. Reluctant to fill the subsequent security void itself, the United States chose Iranian hegemony as the principal means of protection of Western interests against Soviet influence in the region. Saudi Arabia would later become the second pillar of Nixon's "twin pillar" policy.

The United States essentially undertook commitments to the security of the two states, and the "stability" of their regimes. In both cases, the United States elected to preserve the respective monarchies from internal or external threats. With the Iranian revolution of 1979, however, the Carter administration refused to take the steps that would have been necessary to prolong the shah's regime. Because American relations with the Shah had been so close, Iranian revolutionary bitterness against the shah was extended to the American government as well.<sup>134</sup>

## **B. POST-COLD WAR INTERESTS**

Superpower competition has ended, and this should allow for a major difference in the way the U.S. can define and pursue its regional interests.

### **1. The End of Soviet Influence**

While Russian expansion is no longer a major threat, the collapse of the former Soviet Union anticipates many new but less well-defined problems. These include the stability of governments in Moscow and the new republics; economic development; ethnic, religious, and nationalistic strife; and the proliferation of arms and technology. The USSR's disintegration also has larger implications regarding Middle East nations, such as Iran, that border the former Soviet Union.

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<sup>134</sup>Marcy Augmon, *Ibid.*, pp. 11-12.



If the Cold War held any interstate or inter-regional conflicts in check, this control influence is now gone. Rather than stopping the spread of communism, the problem today is one of promoting stability, reducing arms sales, and slowing the proliferation of weapons of mass destruction. In order to ensure continued American access to vital resources, the political and economic development of states in the region must take precedence. This will be a daunting task given the inherent instability of the Middle East. Since American presence is limited in many areas of the region, this cannot be done by the United States alone, or by purely military means. It will take a cooperative effort and a combination of economic, diplomatic, intelligence, and military assets. Thus broad consensus and cooperation on these issues is a requirement, but such a consensus is exceedingly difficult to arrive at when a monolithic threat disappears and interests diverge. Any multinational effort at promoting stability must not be undertaken only by traditional allies in Western Europe. It must focus on regional nations and interests they have in common with America.

## **2. Ensuring Continued Access to Oil**

Due to the fact that Persian Gulf states will remain the largest oil exporters for the foreseeable future, the world will remain dependent on their output. Further, there is little indication that industrial and developing nations are willing or capable of abandoning oil-driven economies.<sup>135</sup> The United States and other industrialized nations depend on consistent, secure access to oil. With global oil consumption increasing at about two percent each year, oil is, and will remain for the foreseeable future, the world's fuel of

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<sup>135</sup>For an in-depth analysis of oil's emergence as a factor in national power and global power politics, see Daniel Yergin's The Prize: The Epic Quest for Oil, Money and Power (New York: Simon and Schuster, 1990). He makes a compelling case for continued preeminence of oil as the primary global energy source based on increasing consumption patterns and the expense of developing alternative energy sources.

choice. As import dependence increases, so does the likelihood of oil supply and price disruptions from conflict between or within important oil-exporting countries.

The reason American involvement in the Gulf is to ensure the uninterrupted flow of oil at moderate prices, and to prevent any single state from monopolizing the reserves. Any major drop in production or sale, or drastic increase in prices, would be detrimental to the globally interdependent economy which runs on Gulf crude. The Persian Gulf states are critical in this context since they maintain almost seventy percent of the world's proven oil reserves.

American interest in the unrestricted flow of oil from Gulf states is greater than the import figure of fourteen percent suggests.<sup>136</sup> Gulf oil enters a global oil market where the price is set for every consumer and the effects of a rapid price increase can have undesirable short-term economic effects. For example, Iraq's invasion of Kuwait abruptly eliminated four million barrels a day from the market (roughly six percent of the world supply), reducing American GNP by nearly one percent in 1991.<sup>137</sup> The economies of America's major trading partners were more adversely effected due to their greater dependency on Gulf oil.<sup>138</sup>

However, it must be pointed out that the suppliers of oil are at least as dependent on selling as the industrialized nations are on buying. Over time, these economic setbacks to Western economies can be limited, as was the case in 1990-1991, by a production increase

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<sup>136</sup>Michael Sterner, "Navigating the Gulf," Foreign Policy, Fall 1990, pp. 41-44.

<sup>137</sup>*Ibid.*, p. 43.

<sup>138</sup>The European Community, for example, imports approximately 40 percent of its oil from the Middle East, and 70 percent from all of OPEC (1991 figures). Despite Japan's comparative advantage if prices were to rise, derived from its higher efficiency rating, it imports 65 percent of its crude oil from the region, making it vulnerable to a rapid price increase. See, Bernard Reich, The Powers in the Middle East: The Ultimate Strategic Arena, (Boulder, CO.: Westview Press, 1991), pp. 153, 295.

elsewhere and by tapping into strategic reserves. The oil boycott of 1973-1974 demonstrated that suppliers are subject to market forces. Price increases can lead to increased conservation measures and the development of alternative fuels. The greatest challenge for future American policy is to prevent the monopolization of oil resources by anti-Western regimes that might manipulate its price for political purposes. Iraq would have been capable of pursuing such an agenda had Kuwaiti oil remained under its control.

The fact is that the oil supplier and consumer nations are in a cycle of mutual dependence. If the price of crude per barrel is too low, the suppliers do not get the necessary revenues. If it goes too high alternative sources -- both more expensively produced petroleum and other fuels -- become economically feasible. So the suppliers have a limited range of prices which they can manipulate. Similarly, the West is dependent on Gulf oil because it is not only some of the best quality crude in the world, it is also the easiest and least expensive to extract. It is currently economically infeasible to develop alternative energy sources and it is economically and politically cost-effective to rely on the vast but vulnerable oil fields of the Persian Gulf. There is no major change to this mutual dependence situation in the foreseeable future. Thus the major threat to the world's key oil supply is not some type of price fixing but recurrent war and instability and potentially the irrational actions of some national leader or non-national group. Since, as stated above, the suppliers are equally dependent on selling their resource, the threats to and interests of these states are the same as those of the West. Thus supplier and consumer interests converge. For both groups the top priorities are security and stability of the region and the continued flow of oil at reasonable prices.

### **3. U.S. Support for Friendly States**

In the past, the objective of "preserving the security and stability of friendly states" has been foremost a statement of American commitment to the state of Israel. United

States support for Israel is derived from an ideological commitment to Israel's democratic structure, similar national experiences, profound emotional sentiment, and the domestic influence of an over six million-member Jewish Community. Relations have also rested on the historical perception of Israel as a valuable strategic ally in an unstable region.<sup>139</sup> It has not been an inexpensive relationship, costing America \$3 billion a year in financial aid and millions more in loan guarantees.<sup>140</sup> It has also handicapped American relations with Arab regimes, many of which staked a degree of their legitimacy on an anti-Israeli agenda.

Several factors necessitate a reconsideration of the relationship. The Soviet threat has disappeared. Israel was valuable in the Gulf War only to the extent that it stayed on the sidelines. Israel's reliability as a trustworthy military ally is also brought into question by a recent U.S. State Department report, which documents the unauthorized transfer of restricted-access American military technology by Israel to other countries.<sup>141</sup> Moreover, American domestic opinion has undergone a transformation, reflecting a less pro-Israeli image. Some reasons include Israel's invasion of Lebanon in 1982, the Pollard affair, and human rights abuses associated with the intifada.<sup>142</sup>

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<sup>139</sup>See, Steven L. Spiegel, "America and Israel: How Bad Is It? Will It Get Worse," The National Interest, Winter 1990/1991.

<sup>140</sup>In total, U.S. aid to Israel has amounted to approximately \$30 billion. This figure includes \$17 billion in military loans and guarantees, \$6.5 billion in loans and grants through the Security Assistance program, and over \$3 billion Food, housing, export-import loans, and aid for resettlement programs. This aid commitment is rooted in the Camp David accords, as a means to encourage an Israeli-Egyptian peace treaty. See, Anthony Cordesman, "The Uses and Abuses of Military Power in the Middle East," The Middle East in Global Perspective, ed. Judith Kipper and Harold H. Saunders, (Boulder, CO.: Westview Press, 1991).

<sup>141</sup>Rumors of unauthorized transfers first appeared in the Wall Street Journal and were later confirmed by the State Department's Inspector General, Sherman Funk. Thomas L. Friedman provides an accounting of U.S. Administration and Israeli responses in The New York Times, 15 March 1992.

<sup>142</sup>Steven L. Spiegel, *Ibid.*, p. 21.

These developments do not eliminate Israel as an important strategic partner, but suggest that the U.S.-Israeli relationship should be reconstituted to reflect the changing political environment and broader American interests.<sup>143</sup> These include promoting regional stability and improving relations with moderate Islamic states. Both are linked to progress in resolving the Arab-Israeli conflict, particularly the question of Palestinian self-determination, and on America's ability to engage the process as an "honest broker."

#### **4. Arms Control**

An additional interest receiving added attention since the 1991 Gulf War is arms control. Past efforts have been consistently undermined by regional tensions, supplier economic incentives, and political considerations.<sup>144</sup> The unrestricted transfer of arms to the Middle East has created the largest regional concentration of military forces since the East-West German border build-up after the Second World War. In fact, the fourteen year period prior to the Iraqi invasion witnessed the accumulation of over \$163 billion in military hardware, with Iraq as the largest recipient at \$53 billion.<sup>145</sup> The Gulf War is profound evidence of the need to make an aggressive arms control campaign a policy priority.

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<sup>143</sup>Spiegel lists several reasons that Israel will remain an important ally, arguing that "collaboration in intelligence, anti-terrorism, and now anti-drug efforts; the utilization of Israeli port facilities at Haifa; the refinement and exercising of desert fighting skills; maintenance of American equipment; joint Mediterranean exercises; food, R & R, and medical services for U.S. troops stationed in the area; and research and development on the most advanced conventional weapons" will continue. Ibid., p. 17.

<sup>144</sup>For an in-depth treatment of this subject see, Yahya M. Sadowski, Scuds or Butter? The Political Economy of Arms Control in the Middle East.

<sup>145</sup>Denise Carera, "Study Says Mideast Got \$163.2 Billion in Arms," New York Times, 6 May 1991.

### C. REEVALUATING INTERESTS IN A CHANGING WORLD

The debate over the preferred paradigm for American foreign policy, isolationism versus internationalism, has renewed in the post-Cold and Gulf War era.<sup>146</sup> The outcome is likely to reveal a United States that is still actively engaged in global affairs, but constrained by budget realities and public attitudes that portend a trend toward greater internal preoccupation. The implications for Middle East policy are clear. First, limited resources demand the prioritization of global concerns. Given the absence of any near-term threats to American interests, the Middle East will again take a back seat to other national security concerns. Second, both constraints necessitate a reduction in foreign commitments. Not only is there pressure to reduce financial aid programs, as well as to reorient them, but dramatic reductions in the defense budget limits America's ability to project military forces.

To some degree, the adverse consequences of this can be offset by improved diplomacy, greater reliance on collective security, allies, and perhaps changes in the currency of international relations. That is, military power may be of declining importance. Although the military option remains viable and even necessary to protect vital economic and strategic interests, it is extremely costly by any measure. External military force has also historically proven woefully inadequate to deter threats of domestic instability and discontent.

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<sup>146</sup>Strobe Talbot distinguishes these trends in "Post Victory Blues," Foreign Affairs, Fall 1991, p. 56. He states that the internationalists are further divided as to whether policy should be guided by the American version of *realpolitik* or a new brand of *moralpolitik*. The theory of *moralpolitik* is derived from America's liberal values, and thus accounts as a major factor in U.S. foreign policy. See, Louis Hartz, The Liberal Tradition in America (New York: Harcourt-Brace, 1955). For an in-depth discussion on realist theories see Kenneth Waltz, Theory of International Relations (Reading, MA.: Addison-Wesley Publishing, 1979).

#### **D. LEARNING FROM THE PAST**

The dilemma America faces is that, like Britain in the nineteenth and early twentieth centuries, it must decide whether or not it is in its best interest to remain actively engaged in the Persian Gulf. The determination displayed by the Bush Administration during the second Persian Gulf War, and the willingness of the American people to support such an extensive and potentially costly operation, indicate that the question of the future course of American policy in the Persian Gulf has already been decided. The Struggle for Kuwait was, after all, the first post-Cold War crisis, a crisis that occurred after the geostrategic equation had begun to change.

The end of the Cold War has and will continue to further enhance the relative importance of the Persian Gulf to the United States. As the necessity to defend Western Europe declines, the importance of the Middle East will increase. The Persian Gulf is probably the only Third World region, other than America's Caribbean and Latin American backyard, in which the U.S. will recognize vital interests in the coming decade.

If America is to play the role of protector and balancer of the Persian Gulf in the future, several historical lessons may help guide American policy makers. First, they must keep their attention focused on the Middle East. Virtually all of the crises in the region involving the United States began when American policy makers had their focus shifted elsewhere. Second, the military resources necessary to secure the interests of an engaged America are minimal, especially compared to the burdens the United States have carried in Western Europe and East Asia. Despite the scale of Operation Desert Storm, once the UN and Iraq reached a final cease-fire agreement, the United States was able to withdraw virtually all of its ground and air, and most of its naval forces. The Gulf Arabs want no

extensive permanent American presence ashore. They prefer to have American forces at sea in the Gulf, steaming over the horizon, and only periodically putting into port.<sup>147</sup>

Further, American policy makers should avoid overreacting to the perceived dangers of fundamentalism in the Gulf. Obsession with fundamentalism and the perceived threat of militancy, radicalism, irrationality and terrorism have shaped American policy toward Iran. This image, shaped by some scholars and media specialists<sup>148</sup> and the biased judgment of others<sup>149</sup> has preoccupied the makers of American foreign policy. The fundamentalist movement is not new, as the rise of Wahabism in the Arabian Peninsula and the Mullah-led revolt against the British tobacco monopoly in Persia have demonstrated in the past.<sup>150</sup> Nor does a fundamentalist Islamic government have to be anti-Western in its political and economic orientation. Saudi Arabia is far more fundamentalist than Iran, but is nonetheless one of the more pro-Western countries in the region.

Finally, American policy makers must strive to eliminate the historical lack of trust and misperception held by Iran's leadership of American intentions. For example, in a recent interview speaker of the Iranian Majlis Ali Akbar Nategh Nouri, argued that there is a "spirit of domination" in American relations with Persian Gulf nations.<sup>151</sup> This perceived American drive for domination in the Gulf reminds many Iranians of their bitter experiences under both colonialism and the Cold War era.

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<sup>147</sup>Michael A. Palmer, Guardians of the Gulf: A History of America's Expanding Role in the Persian Gulf, 1833-1992. (New York: The Free Press, 1992), p. 249.

<sup>148</sup>The best example in this regard is Robin Wright, Sacred Rage: The Wrath of Militant Islam. (New York: Simon and Schuster, 1985).

<sup>149</sup>See for example Charles Krauthammer, "Iran the Root of New Threat as Bad as Evil Empire," Houston Chronicle, 23 January 1993, p. 3F.

<sup>150</sup>Ibid.

<sup>151</sup>Ibid.



The perception of intentions in the Muslim world and the antagonistic attitude of Washington toward more radical forces within Islamic revivalism only escalates radicalism at both the local and international levels. Reformist forces do not trust Washington. For them, the implication of American policy for the Middle East is a continued effort to maintain the status quo and ignore the reformist forces and their democratic ideals. This mistrust can be much more harmful to the United States than the perceived threat of "fundamentalism" in the long run. These forces continue to push for political change within their own nations and to influence their future domestic and foreign policies. An example of the mistrust of Washington among reformists was well summarized by Al-Nabari, a leading opposition figure in Kuwait, a few days after the Gulf War, when he said to a reporter, "The United States does not have a good reputation in promoting democracy and social justice in this part of the world."<sup>152</sup>

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<sup>152</sup>"Governing Outside 'The Western Definition': An Interview with Ali Akbar Nategh Nouri," Middle East Insight, IX, 5, July-August 1993, p. 50.

## VI. PERSIAN GULF SECURITY ARRANGEMENTS

### A. AMERICAN SECURITY ARRANGEMENTS

Despite the general mistrust of American intentions when it comes to Middle East social concerns, the demonstration of American national will during Desert Storm appears to have enhanced the credibility of its future unilateral commitments to the Persian Gulf. The desirability of alliance with the United States seemed to grow in the immediate post-Desert Storm period. Several Gulf states have shown a greater willingness to accept a visible American presence and increased role in regional security arrangements. Over time, however, that trend will likely diminish in relation to more traditional considerations of the negative aspects associated with close American relations. Issues such as the pursuit of independence, fear of negative influences from Western culture, foreign domination, and suspicion of American self-interest motives can all be expected to surface at some point in the future.<sup>153</sup>

#### 1. The GCC as a Vehicle to Gulf Security

The Pentagon's Defense Planning Guidance for the Fiscal Years 1994-1999 identifies domination of the Persian Gulf by hegemonies or alignments of powers as an important threat:

As demonstrated by Iraq's invasion of Kuwait, it remains fundamentally important to prevent a hegemon or alignment of powers from dominating the region. This pertains especially to the Arabian peninsula.<sup>154</sup>

The guidance plan envisioned the GCC member state's militaries to be pressed into a collective security role. Washington articulated several general steps to be taken that were

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<sup>153</sup>Marcy Augmon, *Ibid.*, pp. 33-34.

<sup>154</sup>Patrick E. Tyler, "Excerpts from Pentagon's Plan: 'Prevent the Re-Emergence of a New Rival,'" New York Times, 8 March 1992, p. 1.

designed to deter a hegemonic threat in the region.<sup>155</sup> First, the GCC states were expected to improve their overall defensive capabilities and accelerate the integration of their plans and programs for self defense. Second, the U.S. was to strengthen its military ties with the GCC states and maintain a limited military presence on the Arabian peninsula. This presence was to eventually take the form of prepositioned equipment, training missions, periodic deployments of the U.S. Navy Middle East Task Force in the Persian Gulf and the North Arabian Sea. Third, the United States was to work with the GCC in developing a greater role for regional and extra-regional actors, principally Egypt, Britain and France. The broader context of these efforts were to be shaped by a continuing American commitment to the peace process and regional progress towards democratization.<sup>156</sup>

Initiatives such as the GCC+2 formula, which called for the permanent stationing of Egyptian and Syrian troops on the Saudi peninsula among other things, failed to materialize due to much infighting among the member states. However, what has materialized in the past few years is the establishment of what, in effect, is the beginnings of a permanent American military presence in the Gulf. The financial costs of such an undertaking are expected to be enormous. The U.S. Arms Control and Disarmament Agency has reported that the cost of base construction in the Persian Gulf region totals \$35-\$60 billion.<sup>157</sup>

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<sup>155</sup>The basis for the initiative was originally outlined by then President Bush before a Joint Session of Congress, 6 March 1991, and has been essentially adopted by the Clinton Administration.

<sup>156</sup>Patrick E. Tyler, *Ibid.*

<sup>157</sup>Shelby Scates, "'Bombs Away II': The Sequel?," Seattle Times, 17 January 1993, p. 1.

Bilateral U.S. security arrangements with Persian Gulf states can be characterized as follows:

## **2. Saudi Arabia**

Following Desert Storm a new closeness emerged in the American-Saudi relationship, with an anticipation of alliance-like arrangements such as forward deployment of forces, regular joint military exercises, and establishment of a Central Command (CENTCOM) command center. However, divisions within the Saudi ruling family regarding the drawbacks of a highly visible relations with the United States have resulted in the incremental return to previous policies that have distanced America and encouraged self reliance instead. Further, there is a faction within the royal family that is pressing for increased Saudi arms acquisitions and an end to the reliance on the United States for self defense.<sup>158</sup>

## **3. Kuwait**

Kuwait has demonstrated considerable interest in a close defensive alliance with the United States, despite some problems that have developed in the American-Kuwaiti relationship resulting from the pace of political reform in Kuwait. An joint agreement on improved training, port access, and prepositioning has been signed with the United States, Britain, and France.<sup>159</sup> However, Kuwait is wary of relying exclusively on the West for defense needs as well. They are reportedly sensitive to the way its new defense arrangements will be viewed in the Middle East. Kuwaiti Defense Minister Ali Sabah al Salim has spoken of the priority Kuwait attaches to building its army so that it won't have to rely on its security agreements with the United States and Britain. He even mentioned

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<sup>158</sup>Philip Finnegan, "Efforts to Bolster U.S. Military in Gulf Inches Forward," Defense News, 9 December 1991, p. 43.

<sup>159</sup>FBIS, "Minister Outlines Foreign Policy Principals," 26 February 1992, p. 22.

tacit agreements with Iran that would relate to the broader goals of maintaining Persian Gulf security and stability.<sup>160</sup>

#### **4. Bahrain, the UAE, and Oman**

Much like Kuwait, Bahrain has signed an agreement with the United States on training, prepositioning, and access. The UAE is also reportedly close to finalizing a similar agreement. Bahrain is expected to expand its previous prepositioning agreement to include lethal, as well as nonlethal, military supplies. Oman is reported likely to accept some ground equipment, in addition to the supplies already positioned there.<sup>161</sup>

### **B. THE IRANIAN VIEWPOINT**

The United States has not been alone in attempting to establish long term security arrangements in the Persian Gulf. In fact, many within the Iranian leadership have expressed opinions that, although occasionally divergent, reveal several essential elements in future Iranian foreign policy. Further, these pronouncements clearly point toward Tehran's priorities in the formulation of future Persian Gulf security arrangements.

Iran has repeatedly asserted that the future prospects for all Middle Eastern countries would be bleak without an effective approach to regional arms control, economic cooperation, and a "just solution" to the Palestinian problem. Further, Tehran's leadership appears united in its distrust of any Western-led collective security arrangement in the Persian Gulf region. To them it is unimaginable that any large coalition of Middle Eastern states, particularly those in the Gulf region, could cooperate effectively under one umbrella organization short of facing a common military threat at least equal to that posed pre-Desert Storm Iraq.

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<sup>160</sup>Philip Finnegan, *Ibid.*, p. 43.

<sup>161</sup>Marcy Augmon, *Ibid.* p. 32.

In addition, Tehran's feeling seems to be that any regional collective security arrangement should have been attempted before, not after, the Iraqi defeat. As one Iranian observer has stated,

for any such arrangement to succeed, the timing must be such that rewards [for the potential members] precede the burden of compliance....[I]n the case of the members of the GCC, the rewards are over and the burden starts; in the case of Egypt and Syria the opposite is true, so at least economically, it must not be wise for the former to reimburse the cost of an enterprise with no imminent threat from a potential aggressor.<sup>162</sup>

Further, it is the belief of the Iranian leadership that a viable security system in the Persian Gulf region cannot be developed without Iranian participation.

Despite these convictions, Tehran seems to recognize that it lacks the power to resist American priorities for devising viable future regional security arrangements. In fact, recent Iranian statements suggest Tehran may be willing to accommodate future United States initiated arrangements and live with an American presence in the Persian Gulf.

The dominant view in Tehran seems, in effect, to be that this presence may not, by itself, pose a threat to Iranian national interests. Instead, as seen from Tehran, the overriding problem posed by an open-ended American military presence in the Gulf is, first, its impact on the correlation of military forces in the Gulf regions, and second, the specific role that U.S. forces might play within such an alliance.<sup>163</sup>

Thus, Tehran has made it known that any security arrangement should not turn out to be a vehicle designed primarily in support of Saudi Arabian interests alone. It has also asserted that if such arrangements end up augmenting the Saudi offensive military capabilities, and/or elevating that country to a new status of power as the latest "regional hegemony," Iran would unquestionably be forced to oppose it actively. To Iranian

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<sup>162</sup>Seifzadeh, Spring 1991, p. 101.

<sup>163</sup>Nikola B. Shahgaldian, Iran and the Postwar Security in the Persian Gulf. (Santa Monica, Calif.: Rand, 1994), p. 17.

decision makers, the most threatening aspect of this scenario would be Saudi Arabia's attainment of a "carte blanche" to further extend its influence over the small littoral Arab states of the lower Persian Gulf.

As for specific aspects of an American military role, Iranian decision makers have thus far remained silent publicly. It would seem that they are still waiting to obtain a better sense of the future direction and form of American assistance. However, it is clear that, for Iranian authorities, the nature of the United States force component, plans for prepositioning and stockpiling of heavy American equipment, plans for joint military exercises, and American technical training of GCC forces represent important military and political issues which should reveal America's "true intentions" in the Gulf region. Even more importantly, Iran apparently hopes to determine the dimensions of Saudi Arabia's future military ambitions in the region through disclosure of these specificities, before responding accordingly.

### **C. A NEW PARTNERSHIP?**

There is a belief among several Middle East experts that if Iran were to decide that negotiations between the United States and the GCC states precluded the establishment of Saudi hegemony, that it might consider joining a regional security arrangement, perhaps as an "associate" member at first. The Rafsanjani administration has taken the position that its relations with Saudi Arabia must significantly improve before Iran will enter into any collective security commitments. As Rafsanjani stated during a 1991 interview,

our initial view was that bilateral relations with the regional states is what guarantees regional security. And the principal basis of our own presence in collective movements is the good relations between us and those states. If those relations reach a proper stage, naturally we will be present at collective movements.<sup>164</sup>

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<sup>164</sup>FBIS, Daily Report, 28 August 1991, p. 23.

Under the present circumstances in the Gulf region, Iran seems to feel it has little role to play in an essentially "Arab security club" where it would stand as the odd man out. Complicating the situation is that most Persian Gulf states distrust each other, and many perceive that the most likely threats could come from within any collective Gulf security arrangement. The smaller Gulf states, for example, are apprehensive about Saudi Arabia's announced plans for enhancing its regional presence. The involvement of non-Gulf forces, they feel, might only add to the area's political and security problems by further empowering the Saudis. Internal conditions in both Egypt and Syria, as well as their own regional ambitions, are also cause for Gulf caution.

From Iran's point of view, the apparent belief is that the presence of "outsider" Arab states in any future security arrangement in the Gulf region would not only dilute the relative weight of Saudi Arabia within the proposed organization but also presumably counterbalance or perhaps reduce the latter's relatively strong political influence in the smaller Arab states of the lower Gulf. In particular, Iran favored Syrian participation, feeling that Syria's presence might turn out to be a sort of insurance policy for Iran; in a worst case scenario, Iran might possibly be able to utilize this presence as a useful "damage control" mechanism to its own interests within the new arrangement.

In this connection, many Iranian leaders tend to view Iran's strategic alliance with Syria as providing Iran with a valuable opening into inter-Arab rivalries and possibly exploiting historical Arab regional differences that are temporarily buried in the aftermath of Iraq's military defeat. In addition, Tehran hopes that Syria's membership in a Gulf security arrangement might also prompt the Saudis eventually to view Israel, not Iran, as the primary source of threat to their security and well-being.<sup>165</sup>

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<sup>165</sup>For details, see Iranian Deputy Foreign Minister Mohammad Ali Besharati's remarks during his January 1992 trip to the UAE appearing in Iran Times, 17 January 1992.



It can be expected that if Tehran's fears about Saudi Arabia's military future are realized, Iran will reverse its present, evolving policy positions toward American-led Gulf security arrangements and gradually adopt a number of radically different positions. For instance, there is a distinct possibility that Iran could attempt to put aside its differences with Iraq and normalize relations with Saddam Hussein. The primary goal being to eventually form a broad-based anti-Saudi coalition of regional forces. Other possible candidates to join this coalition with Iran include Qatar, the UAE, Oman and Yemen, each of which has had long-standing grievances against the Saudi ruling family.

Iran can be expected to use its economic might, as it has attempted to do in the past, to wean GCC member states from the Saudi monarchy. Finally, if Iran feels threatened enough, its leadership could possibly change its present strategic posture and broaden its political and military relationship with China, North Korea, and Pakistan, whereby the latter states would act as a force multiplier. Concurrently, Iran might be hastened to expand its embryonic nuclear program into full scale development of nuclear weapons.<sup>166</sup>

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<sup>166</sup>Various reports about Iran's nuclear intentions, invariably denied by Tehran, have appeared in the press. See, for example, Elaine Sciolino, "Report Says Iran Seeks Atomic Arms," New York Times, 31 October 1991, p. 5.

## VII. IRAN RESURGENT: SEPARATING MYTH FROM REALITY

There cannot be a serious Persian Gulf regional security arrangement without Iranian participation. Iran possesses a population surpassing sixty million people, abundant natural resources, a sizable educated middle class, and an institutionalized political system. Despite the negative effects associated with its 1979 revolution and eight year war with Iraq, Iran stands as a regional giant.

The resurrection of Iran has caused considerable alarm in many international political circles. Israel, for example, has invested heavily in a concerted campaign to denounce and vilify Iran and to present it as "enemy number one." According to an Israeli spokesman: "The whole Israeli political and intellectual establishment, in fact, has been galvanized to put across this message."<sup>167</sup> Israeli Foreign Minister Shimon Peres has consistently compared Iran's Islamic ideology with communism, while other pro-Israeli voices have made comparisons to Nazi Germany.<sup>168</sup>

Iranian opposition groups such as the Iraq-based Mujaheddin al-Kalq aggravate the situation by providing distorted information to the mass media and to American government officials. In turn, Tehran's "public relations" have only added to its negative image. Often, when suspect claims are made against Iran, Tehran tends to overreact, and the government lashes back with rhetoric that itself distorts reality. This spiral of attacks and counterattacks has obscured the realities of Iranian policy.

The issue is further complicated by the fact that Egypt, Israel, and the United States have all concluded that their interests are served by the propagation of a new enemy --

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<sup>167</sup>Michael Parks, "Israel Sees Self Defending West Against Militants," Los Angeles Times, 2 January 1993, p. A22.

<sup>168</sup>See Israel Shahak's article, "With Iraq Neutralized, Israelis Seek Catalyst for War with Iran," Washington Report on Middle East Affairs, April-May 1993, p. 15.

Islamic fundamentalism in general and Iran in particular. This is a relatively easy point to make since Islamic fundamentalist activities are challenging the political order throughout much of the Middle East.<sup>169</sup> It would be a mistake, however, to regard the variety of local movements as beholden to Iran. Tehran is willing to support these movements when it can, but it neither created nor controls them. Furthermore, Iran's interests in and capacity for mischief are much reduced in comparison with the period after the revolution.

### A. OVERCOMING HISTORY

Negative national reputations are difficult to change even when the behavior which created those reputations changes. Iran is painfully discovering this reality. Despite a steady, moderate, and pragmatic trend in its domestic and international policies, Iran still finds itself suspect, especially in the United States. Indeed, even the most natural Iranian efforts to rebuild its economy and its devastated military are interpreted as a resurgent expansionist move and as a serious threat to American interests. Yet as Tehran realizes the price of past mistakes, the United States also runs the risk that by allowing past experience to color its perceptions of current realities it will commit damaging policy mistakes.<sup>170</sup>

The shift in Iran's foreign policy performance reflected in its new found concern for compromise and stability has gone largely unnoticed, hidden beneath harsh rhetoric, political assassinations and some well publicized policy blunders, such as the abortive 1993 attempt to extend Iranian control to the island of Abu Musa -- jointly ruled with the

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<sup>169</sup>Gary Sick, "The Two Faces of Iran: Rafsanjani's Moderation, the Mullahs' Holy Terror," New York Times, 4 April 1993, p. C2.

<sup>170</sup>Shireen T. Hunter, "Iran Through a Distorted Lens," Christian Science Monitor, 2 March 1992, p. 19.

UAE since 1971. Iran has since backed down, but its actions have only increased concerns about Tehran's intentions.<sup>171</sup>

Iran's role in support of American policy during the Persian Gulf War, its efforts to improve relations with the GCC states, and its role in gaining the release of American hostages are forgotten. Undoubtedly these acts were in Iran's self interest, and gratitude is not owed. Nevertheless, if the American response to positive developments in Iran is exaggerated fears about its intentions and the erection of new barriers to its gradual reintegration into the international community, there is risk of stalling or even reversing the positive trends. In the time ahead, Iran must work to regain the trust of its neighbors and the international community. But this will not be easy if others find it convenient to equate Iran as the new embodiment of evil in the world. An isolated and encircled Iran would be much more dangerous, especially if events in the Middle East worsen. Then it may be too late to influence Iranian events in a positive direction.<sup>172</sup>

An American strategy for the region must acknowledge the contradictions in Iran's behavior without losing sight of American interests and obligations. That can be done, but it must start with an understanding of Tehran's dual personality. For more than six years, Rafsanjani has attempted through words and deeds to create a new image of Iran as a respectable member of the international community.<sup>173</sup> At a conference of Western, Asian, and Arab oil industry officials, including the Prime Ministers of Kuwait and Saudi Arabia, at Esfahan in May 1991, Rafsanjani stated

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<sup>171</sup>Gary Sick, "The Two Faces of Iran: Rafsanjani's Moderation, the Mullahs' Holy Terror," Ibid.

<sup>172</sup>Shireen T. Hunter, "Iran Through a Distorted Lens," Ibid.

<sup>173</sup>Ibid.

The concluding years of the twentieth century are marked by world events that have replaced the previous bipolar system by a new order. If this order is to persist, cooperation should replace confrontation.<sup>174</sup>

Iran's deeds have included the harboring of Iraqi Shiite and Kurdish refugees who fled Iraq's internal strife immediately following the war. Its constructive role in helping to fashion a cease fire in Afghanistan and support of elections in Lebanon. And the annual pilgrimage to Mecca -- long a matter of contention between Saudi Arabia and Iran -- was conducted this past summer without incident for the first time in years. In each of these cases, Tehran could have taken an obstructionist role. Yet it opted for compromise solutions that were consistent with the interests of the GCC, UN, and the United States.<sup>175</sup>

## **B. CONFLICT OR COOPERATION?**

Due to its size and capability alone, Iran possess a certain threat potential in the region and should be dealt with constructively. Iran's perspective is that it is at the heart of the vital Southwest Asian region and that the Iranian nation has the legitimate historical and cultural right to dominate this area. While Iran has long been frustrated in exercising this right, the dramatic changes of recent years have presented Iran with a new opportunity to achieve its aspirations. If in fact this goal can be accomplished and how it will be pursued is problematic. A key question is how Iranian interests and objectives coincide or conflict with those of other regional powers?

To a considerable extent, the policy parameters within which Iran is likely to behave in the international arena will largely be determined by two interrelated factors: first, the nature of Iran's future relations with the United States and, second, internal political and

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<sup>174</sup>New York Times, 28 May 1991, p. A1, A7.

<sup>175</sup>Gary Sick, "The Two Faces of Iran: Rafsanjani's Moderation, the Mullahs' Holy Terror," *Ibid*.

economic developments in Iranian society. In the first instance, if the American presence in the Persian Gulf is ever used to reassert American military or political influence inside Iran, Tehran can be expected to resist and seek to frustrate that policy. However, despite rhetorical assertions, however, Iran will not automatically oppose American policies in the Persian Gulf, elsewhere in the Middle East, or in the former Soviet republics. Instead, it can be expected to judge these policies by virtue of their direct or indirect support for or opposition to Iran's perceived national interests. The mere presence of American forces in the region is unlikely to push Iran into adopting a hysterical anti-U.S. position whereby it would resort to violence or acts of subversion.

Because of Iraq's defeat, Iranian leaders are likely to remain impressed by American determination to act against aggression. Desert Storm showed that the United States would go to war to protect its vital interests in the region, and that such a war would be waged decisively, thus removing any doubts about American military power and political will.<sup>176</sup> Torn between its historic suspicion of Russia, Saudi Arabia and Turkey, and together with its mistrust of American intentions, Iran is likely to consider the future benefits or dangers of American presence in the region to be real. This, in all likelihood, will lead to caution in the future conduct of Iranian regional foreign policy.

Finally, Tehran seems to recognize that, under new circumstances, its traditional blanket opposition to American presence and policies in the Middle East no longer makes any sense. Meanwhile, Iranian public opinion might gradually come to accept the necessity of normal relations with America. At the same time, several possible developments in the region could lead Iran to reverse its evolving policy position toward the United States. First, if American presence in the Persian Gulf comes to be regarded in Tehran as a design intent on benefiting Saudi Arabia's offensive military capabilities and/or

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<sup>176</sup>Western European diplomat in Iran quoted in the New York Times, 7 May 1991, p. A15.

elevating Riyadh to a new status of power as the regional hegemon, it will entice Iran into adopting a radically different course of action. Tehran could be expected to adopt an even harsher anti-U.S. policy. If such a scenario came to pass, Iran's alternative courses of action might range from attempts to form a broad anti-Saudi coalition of regional forces involving Qatar, Oman, Yemen, and others or to enter into a close political and military relationship with China, North Korea, and Pakistan.<sup>177</sup>

American relations with Iran have historically been dominated by strategic interests, both in containing Soviet expansion and ensuring the security of the Gulf. This strategic relationship collapsed with the revolution, and economic interests have become increasingly important. However, the sweeping changes of recent years have fundamentally altered the regional balance of power and dramatically increased Iran's significance so that it can no longer be ignored or isolated. This situation presents the United States with an opportunity instead of an obstacle. Though Iran has the potential to be a threat to American interests in the region, this potential has not yet been realized, and cannot be as long as American power is present. This must be kept in perspective. As was true under the shah, Iran cannot dominate its relationship with the United States unless Washington allows it. Holding up Iran as a threat to the United States merely plays into the hard-liners' hands and enhances their prestige. Iran is by no means a world power capable of threatening the order imposed by the sole remaining superpower. America is obviously the dominant power and can decide which way the relationship will turn. In spite of political differences, American and Iranian strategic interests are basically the same. It is up to the United States to take advantage of these convergent interests.

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<sup>177</sup>Iran has openly discussed such arrangements in recent months. See, "PRC, and India Discuss Tehran Call for Anti-U.S. Alliance," Middle East Intelligence Report. America Online Service. Translated from Tehran Voice of the Islamic Republic of First Program Network in Persian, 5 March 1994.

If we accept the fact that United States and Iranian interests coincide and that it is in American interests to see a stable and moderate Iran, the question then becomes "how can the United States best influence the moderation of the Tehran government and promote the stability of the region?"

### **C. FIVE AREAS OF CONCERN**

In his testimony before the House Foreign Affairs Committee on 27 July 1993, Undersecretary for Near East and South Asian Affairs Edward Djerejian enumerated five areas of Iranian behavior to which the United States objects and seeks to change. These concerns are addressed as follows:

#### **1. Weapons of Mass Destruction (WMD)**

First is Iran's quest for nuclear and other weapons of mass destruction....We are particularly concerned with preventing Iran from acquiring the means to produce and deploy nuclear...and other weapons of mass destruction, as well as ballistic missiles.<sup>178</sup>

While it is generally accepted that Iran possesses a chemical weapons capability, there continues to be debate as to whether Tehran has embarked on a nuclear weapons program. Iranian officials consistently deny that they intend to develop nuclear weapons. However, with the help of Chinese and Russian technicians, Tehran has restated an ambitious nuclear power development program that theoretically could provide Iran with substantial amounts of weapons grade material. Begun under the Shah in the early 1970s, Iran's nuclear program officially has the goal of providing twenty percent of its power needs by the end of the century.<sup>179</sup> Hans Blix, the Secretary General of the IAEA,

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<sup>178</sup>Edward P. Djerejian, "U.S. Policy on Recent Developments and Other Issues in the Middle East," U.S. Department of State Dispatch, 9 August 1993, pp. 571-572.

<sup>179</sup>Peter Feuilherade, "Nuclear Conundrum," The Middle East, July/August 1994, p. 9.



confirmed that Iran is using nuclear energy for peaceful purposes after a two day visit there this past April. Two prior inspections in February 1992 and November 1993 had supposedly found no evidence that Iran was seeking development of nuclear weapons.<sup>180</sup>

Unfortunately, these findings may be less than conclusive, especially in light of the nuclear nonproliferation regimes' failure in detecting Iraq's covert program until after Desert Storm. Further, in December 1992, the CIA concluded in a draft report (disputed by subsequent military analysts) that Iran could develop a nuclear weapon by the year 2002.<sup>181</sup>

Whatever the current situation, Iran is hardly the only nation in the region to have acquired or attempted to acquire weapons of mass destruction. Unlike some nations which are believed to have nuclear weapons, such as India, Israel and Pakistan, Iran is a signatory of the Nuclear Nonproliferation Treaty.<sup>182</sup>

It is the current Administration's view that dual containment provides "an opportunity now to prevent Iran from becoming in five years' time what Iraq was five years ago."<sup>183</sup> It is questionable, however, whether the American policy will dissuade Iran from attempting to acquire a nuclear weapons capability. Some analysts fear that to increase Iran's economic and strategic isolation will only strengthen the hand of those in Tehran who argue for a nuclear weapons capacity to counter that of Israel and other potential enemies.<sup>184</sup>

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<sup>180</sup>MEED, 19 March 1993, p. 10

<sup>181</sup>Peter Feuilherade, *Ibid.*

<sup>182</sup>MEED, 19 March 1993, p. 10.

<sup>183</sup>Anthony Lake, "Confronting Backlash States," Foreign Affairs, March/April 1994, p. 53.

<sup>184</sup>Peter Feuilherade, *Ibid.*

## 2. Terrorism

According to Djerejian, the second area of concern "is Iran's continued involvement in terrorism and assassination worldwide....Until it abandons support for terrorism and terrorist groups, we will maintain existing unilateral counterterrorism sanctions on Iran."<sup>185</sup>

It is widely reported that Iran is the leading proponent of terrorist and extremist Islamic fundamentalist groups throughout the World. Yet, there exists a glaring lack of evidence to support these allegations. In fact, many of the past accusations made against Iran have been quietly proven false, as in the alleged 1980s Red Sea mining incident. Rafsanjani in fact played a pivotal role in obtaining the release of the hostages aboard TWA Flight 847 in 1985. In his August 1993 inaugural address to the Majlis, Rafsanjani stated:

We think and we believe that Islam can spread further and gain more influence in a calm and secure atmosphere rather than in an atmosphere filled with tension and adventurism.<sup>186</sup>

Unfortunately for Rafsanjani, Tehran has emerged a convenient scapegoat for several regimes in the region that are experiencing challenges from domestic fundamentalist groups bent on violent overthrow.<sup>187</sup> However, Iran cannot be held responsible for the upheaval occurring in places such as Egypt, the Sudan, and Algeria. Much of the blame should be placed on regimes that are unable or unwilling to cope with rising social and

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<sup>185</sup>Edward Djerejian, p. 572.

<sup>186</sup>Iran Times, 13 August 1993, p. 1.

<sup>187</sup>For an in-depth discussion of this topic see Stephen C. Pelletiere, Islamic Terror and the West: A Question of Priorities, Strategic Studies Institute, U.S. Army War College, Carlisle Barracks, PA, June 1993.

economic despair among their populace. Djerejian was in agreement with this analysis when before the United States Congress he stated:

In the last analysis, however, it should be noted that social injustice - the lack of economic, educational, and political opportunities - gives the extremists their constituency in each country.<sup>188</sup>

Iran must, however, bear responsibility for the promotion of violence in several instances involving the assassinations of opposition political figures in Europe and in providing assistance to the Hezbollah and Hamas movements in Lebanon. Although other Muslim countries such as Kuwait, Saudi Arabia, Egypt and Jordan have provided considerable financial aid to Hamas, Iran is increasingly a major external supporter.<sup>189</sup>

Iran's most notorious edict of terrorism, of course, is the death warrant issued for Salman Rushdie. In sum, Iran is by no means innocent of all terrorist activities abroad. At the same time, it is a distortion of reality to consider Tehran as the central capital of terrorism in the world today and to blame Iran for the many violent incidents that occur across the Muslim world.

Finally, it must be pointed out that despite Syria's designation as a sponsor of terrorism by the State Department, the United States has chosen to use a combination of political and economic inducements in order to moderate that regimes behavior.<sup>190</sup> A similar approach could be tried with Iran.

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<sup>188</sup>Edward Djerejian, transcript of testimony before House Foreign Affairs Committee, 27 July 1993.

<sup>189</sup>Opinions differ concerning the financing of Hamas. According to one local source, "Kuwait and Saudi Arabia have contributed \$30 million since the Gulf War, and Iran, a new donor, has given \$13 million." See Sara M. Roy, "Gaza: New Dynamics of Civic Disintegration," *Journal of Palestine Studies*, Summer 1993, p. 29.

<sup>190</sup>An annual report to Congress entitled "Patterns of Global Terrorism" claims that while there is no evidence that Syrian officials have been directly involved in planning or executing attacks since 1986, Damascus continues to provide support and safe haven for several groups that

### 3. Arab-Israeli Peace Process

The third area of Iranian behavior to which the State Department strongly objects is its support and advocacy of violence to stop the Arab-Israeli peace process.<sup>191</sup>

An Arab-Israeli peace is essential as regards other American interests in the region. It is closely tied to efforts to curb arms proliferation and to enhance the climate for economic reform and political liberalization. Indeed, if progress is not made on the Arab-Israeli peace process, the United States will find it increasingly difficult to insulate its relations with Israel from the rest of the Arab world, especially in the Persian Gulf.<sup>192</sup>

The Arab-Israeli conflict is the primary factor undermining regional stability. Not only does its perpetuation risk renewed conflict, but it threatens America's commitment to Israeli security and hinders the cultivation of more favorable relations with moderate Arab regimes. Achieving lasting peace may be a tenuous objective, but it warrants a serious effort. An equitable final status settlement will require persistent American efforts based on the principle of "land for peace." The United States cannot accomplish this unilaterally. It must therefore continue to seek a comprehensive settlement extending beyond the "Palestinian question" to encompass Israeli-Syrian relations, the Lebanese situation, and broader multilateral, regional issues.

Iran's influence on this matter is largely limited to Syrian controlled Lebanon. Therefore, it is unlikely that the peace process will be effected one way or the other by Tehran. If the primary parties involved in the process genuinely seek agreement and

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engage in international terrorism. It further alleges that the recently captured international terrorist Ilich Ramirez Sanchez, known as Carlos the Jackal, appeared to enjoy Syrian sanctuary, as did the Palestinian rejectionist groups Hezbollah and Hamas. See Alan Elser, "U.S. Terror Report Cites Syria Despite Peace Role," Reuters. America Online Service. 9 May 1994.

<sup>191</sup>Edward Djerejian, *Ibid*.

<sup>192</sup>See, Phebe Marr, *Strategies for an Era of Uncertainty*, " Riding the Tiger. Eds. Phebe Marr and William Lewis. (Boulder, CO.: Westview Press, 1993), pp. 211-235.

understanding on the issues before them, there is literally nothing Iran can do to prevent the Arab-Israeli peace process from occurring.

#### **4. Subversive Activity**

"The fourth aspect of objectionable Iranian behavior is its threats and subversive activities against its neighbors."<sup>193</sup>

The conventional wisdom holds that Iran is engaged in an imperial crusade to dominate the Persian Gulf both militarily and territorially. With Iraq defeated and weakened, Iran is planning to seize the opportunity to destroy and ultimately swallow neighbors such as Kuwait and Bahrain. Further, Iran's aggressive behavior concerning the islands of Abu Musa in 1992 demonstrates Iran's sinister intentions.

However, the reality is that there has been little subversive activity by Iran against its neighbors since the end of the Iran-Iraq War in 1988. In fact, Iran has become ready to develop political and economic relations with its Gulf neighbors. Since November of 1989, Iran has reached out diplomatically to its neighbors. In the process, it has consistently emphasized the need for solidarity and cooperation among the countries that border the Gulf.

In return, the GCC states have either maintained or reestablished formal relations with Tehran and economic cooperation is increasing as well. While Bahrain and others may be subject to occasional rhetoric and territorial disputes, this is not unusual for the region. With a partial exception of small groups in Saudi Arabia and the UAE, the Gulf states do not believe Iran has designs on their territories. Kuwait, for example, is much more concerned about Iraq and Saudi Arabia than about Iran, and key groups in Saudi Arabia continue to feel more threatened by Iraq than by Iran.

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<sup>193</sup>Edward Djerejian, *Ibid.*

## **5. Human Rights**

The final area of concern articulated by Djerejian "is Iran's dismal human rights record, which is a matter of continuing concern."<sup>194</sup>

It is true that Iran cannot match the Western ideal for human rights. However, for a Middle Eastern country, Iran is on par or far exceeds its neighbors on this issue. Furthermore, the United States routinely supports non-democratic governments, including Islamic ones (Saudi Arabia, Pakistan, and to a certain extent, Syria), when it suits its interests with little regard for human rights or democracy. We need to acknowledge this, put aside idealistic requirements and deal pragmatically with Tehran.

### **D. AN ASSESSMENT OF IRAN**

From the evidence previously presented in this study several conclusions about Iran can be drawn. First, the Islamic Republic possesses a building but still recovering military. It is gaining sophisticated conventional weapons and possibly weapons of mass destruction, but not designed for regional offensive operations. The Iranian economy is struggling to recover from war damage and centralized mismanagement. Though oil production, industry and agriculture are improving, unemployment and inflation are high and likely to increase, thus feeding domestic unrest. Bold recovery steps have been taken, but the results are not yet in and could go either way. Politically there is a deep division in Tehran, with confrontational rhetoric from the hard-liners while moderates continue to attempt reform.

The hard-line clerics are loath to let go of the ideological stance from which they derive their power and legitimacy, yet they surely see the necessity for positive steps of nation-building. Whether the hard-liners are firmly in control, some sort of deal has been

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<sup>194</sup>Ibid.

struck, or the power struggle continues is a matter of conjecture, and conflicting signals continue to be sent. Perhaps most significantly, the political contradictions arising from the unique Islamic system of government will eventually force the regime to moderate its stance on many key issues. However, this system can be expected to follow an uncertain course over the next decade. The result is that Iran has great potential, growing capabilities and serious problems. This is not to say that Iran is not a threat, but that they do not currently present an overt threat of military aggression, especially if the United States continues its deterrent role.

In assessing Tehran's role in the regional and global system a pertinent question to ask is whether Iran is a status quo or revisionist power? A cursory glance at the regional situation will suffice to answer this. The Soviet dissolution is obviously a major cause of uncertainty. Iraq is defeated, divided, and under international economic, political and military pressure. Afghanistan continues to be convulsed by civil war, as does Georgia. Armenia and Azerbaijan are still at war after several years. The entire Transcaucasus and Central Asia are rife with potential instability, as is Russia itself. India is experiencing religious strife and the India-Pakistan conflict over Kashmir intermittently threatens to explode. Iran's own ethnic minorities and the presence of nuclear weapons and major external military forces in the region only exacerbate this situation.

In light of the numerous centrifugal forces and Iran's domestic political and economic problems cited above we may conclude that it is in the interest of both Iran and Washington to increase stability in this troubled area. Far from being a threat, Tehran is fortunate to be as stable and successful as they are. Though it may not be their ultimate goal, Iranian leaders may well desire maintenance of the status quo for the present.

## VIII. CURRENT AND ALTERNATIVE AMERICAN POLICIES

### A. DUAL CONTAINMENT

On 23 May 1993 Washington announced the policy of dual containment of both Iran and Iraq. This new policy marked a reversal of American attitudes, which had signaled a possible rapprochement with Tehran following the Gulf War, and the beginning of a more aggressive position. The policy was officially enacted due to emerging signs of cooperation between Iran and Iraq. Specifically the Iranian purchase of Iraqi oil and steel in violation of UN sanctions.<sup>195</sup>

It has been asserted that the policy was also in reaction to the attempted extremist sabotage of the Arab-Israeli peace process that had begun the previous year, and to Egyptian and Israeli lobbying intent of portraying Islamic fundamentalism and Iran as the new threat to American interests in the region. Whatever the motivation, a strategy of containment, reminiscent of the Cold War, would seem to indicate an aggressive policy of isolation pursued with international consensus against a nation which is deemed to be a major threat to world peace and stability. Such actions were possible against the Soviet Union in the bipolar era and are still in place against Iraq more than three years after coalition forces liberated Kuwait, but no such international coherence has emerged in the case of Iran.

Dual containment is essentially based on a series of restrictions and pressures. Martin Indyk, special assistant to the President for National Security, and formulator of the policy states:

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<sup>195</sup>Jeffrey Smith and Daniel Williams, "Clinton Considers Containment Policy," Washington Post, 24 May 1993.



In the past our policy was to give one of the two countries, that is Iran and Iraq, greater preference over the other. We are now in a situation where we should learn a lesson from the past and should study and adopt a suitable strategic stance on the Persian Gulf. Reliance on the strength and capabilities of one of the two countries to restrict the other and to maintain a balance of power has proved to be an erroneous policy.<sup>196</sup>

Indyk and others in the Clinton administration believe that the dissolution of the Soviet Union, the reduction of the political and military strength of Iran in the eight year war with Iraq, and the direct presence of the United States in the Persian Gulf have created conditions that allow the United States to bring about a balance without Iran or Iraq having any direct intervention in the region. Edward Djerejian explains the goals of the policy thus:

[Washington] does not seek to overturn the Iranian government nor dictate the form of that government. We do intend to use extensive economic pressure to induce Iran to change the behavior we find unacceptable. Our focus is on Iranian behavior. This distinction is central to our efforts to enlist key allies in efforts which complement each our own. It also makes clear to Iran that changes in behavior will serve the broader interests of the international community and Iran's own interests if it seeks to be a full-fledged member of the community of nations...Until Iran chooses to respond to this offer, we will continue an indirect dialogue through the Swiss. In any case, normal relations with Tehran are impossible as long as Iran continues to engage in its current behavior.<sup>197</sup>

Anthony Lake, the President's National Security Advisor, has stated that dual containment is working for four reasons. First, with the end of the Cold War, the strategic importance of both Iran and Iraq has been reduced dramatically, ending their ability to play the superpowers off against each other. Second, over the past decade, a regional balance

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<sup>196</sup>Middle East Intelligence Report, "U.S. Policy of 'Dual Containment' Examined," America Online Service, 16 March 1994., p. 1.

<sup>197</sup>Edward Djerejian, "U.S. Policy on Recent Developments and Other Issues in the Middle East," U.S. Department of State Dispatch, 9 August 1993, p. 572.

of power between Iran and Iraq has been established at a much lower level of military capability.

Third, after Iraq's invasion of Kuwait, the GCC states have been less reluctant to enter into security and prepositioning arrangements with Washington, allowing American forces to deploy in the Persian Gulf against any potential threat from Iran or Iraq. Finally, in Lake's view, Washington now enjoys strong relations with the region's other major powers -- Egypt, Israel, Turkey and Saudi Arabia -- so it no longer needs to depend on either Iran or Iraq to maintain a favorable balance and protect American allies in the Gulf.<sup>198</sup>

But critics of dual containment wonder how either Iraq or Iran can be contained without the cooperation of its hostile counterpart. One of those critics, F. Gregory Gause of Columbia University, wrote in Foreign Affairs that the policy is unpopular with America's allies in the Gulf, offers no guidelines for dealing with change in the region, and "assigns" to the U.S. a unilateral role in managing Gulf security issues at a time when the American capacity to influence events is limited.<sup>199</sup>

In his criticism of dual containment, political commentator Graham Fowler has said that the policy will not be beneficial. He claims that the United States tends to greatly exaggerate the dangers from Iran and the current American policy needs to be reviewed and reappraised. Fowler says:

At present we are confronted with an Islamic Republic in the Middle East, but in the future there will be more such republics and we cannot make any innovations in our policy that we cannot continue in the future. [Dual containment] is very short sighted.<sup>200</sup>

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<sup>198</sup>See Anthony Lake, "Confronting Backlash States," Foreign Policy, March/April 1994, pp. 45-55.

<sup>199</sup>Ibid.

According to Fowler, the formulation of a balanced policy in which there is a collection of friends and enemies is not a difficult task, but the balance of power in the aftermath of the Cold War needs assessment, study, and thought within the new framework. He states that the United States should formulate its strategy in a manner in which the Persian Gulf countries can resolve their security issues without much dependence on that country and American interests can be safeguarded.<sup>201</sup>

Iran and Iraq have policies that are different from those of the United States, and they are also different from one another in relation to their respective situations. Iraq is a country with unchanging policies, which have not evolved completely, and is being administered by a ruthless individual. However, Iran is a country undergoing change within the framework of a pluralist political system. Therefore, it would be fallacious for the United States to adopt a uniform policy for both countries.

Regardless, it has become readily apparent that economic interests are lessening dual containment's effectiveness. Europe and East Asia are becoming increasingly dependent on Persian Gulf oil and are deeply invested in the Iranian petroleum, natural gas and industrial development projects.<sup>202</sup> Despite American efforts to dissuade European and Japanese commercial banks and governments from extending Iran credit on an estimated \$30 billion dollars in faulty loans, Tehran has entered into agreement with nearly all of its creditors to reschedule payments. In short, there has been no action from our allies on implementation of a containment policy.<sup>203</sup>

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<sup>200</sup>Middle East Intelligence Report, "Iran - Article on U.S. Policies, Economy," translated from the Iranian daily SALAM, 18 July 1994, p. 2.

<sup>201</sup>Ibid.

<sup>202</sup>Asian oil demand, for example, is expected to climb from 14.6 million barrels per day (bpd) in 1993 to 19.6 bpd in 2000. Kim Coghill, "Asian Oil Dependence Grows Despite Gulf Crisis," Reuters, America Online Service, 2 August 1994.

Adding insult to injury, American oil companies have recently become Iran's largest purchasers of crude oil at a rate of more than \$3.5 billion per year.<sup>204</sup> Further, despite export controls imposed by the United States government, America ranks fifth in the world in exports to Iran. In 1994, direct and indirect American exports were expected to surpass \$1.5 billion, ranking the United States fifth in the world in that category.<sup>205</sup> American businessmen are anxious to reenter the Iranian market. The Department of Commerce receives an estimated forty calls of inquiry every day from individuals seeking information on doing business in Iran. Apparently, there is more interest in doing business in Iran than in any other Middle East countries.<sup>206</sup>

Obviously, with so many conflicting signals and interests in today's fluid strategic environment, forging a consensus on Iran is next to impossible. Further, if the current situation were to change tomorrow, it is doubtful that an international consensus on dual containment would matter. In an age when large multi-national conglomerates possess extraordinary power, it is increasingly difficult for national governments to impose control over these organizations, especially when in conflict with their profit motive. Unofficial transfer of sensitive material and technology occurs on an increasingly regular basis, often with the help of third party nations or corporations. Even if there were complete cooperation by both government and industry, it would be doubtful whether dual containment would alter Iranian behavior.

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<sup>203</sup>MEED, 23 July 1993, p. 23.

<sup>204</sup>Steve Coll, "U.S. Firms Buying Oil From Iran," Washington Post, 8 November 1992, p. A1.

<sup>205</sup>Middle East Intelligence Report, "Iran - Article on U.S. Policies, Economy," translated from the Iranian daily SALAM, 18 July 1994, p. 2.

<sup>206</sup>Ibid.

If Iran is truly on an expansionist course, all it need do is moderate its behavior long enough to strengthen itself before resuming a radical course. By the same token, however, should the United States continue to constrain Iran's economic development by denying credits, technology, and recognition and challenge Tehran's position in the Gulf by increasing its military presence and by continuing massive arms flows to the GCC, it runs the risk of encouraging conflicts it seeks to avoid.

## **B. ALTERNATIVE POLICIES**

If dual containment is not the answer, then what is? America has a choice of either aggressively confronting Tehran or making bold moves to ease regional tensions. Ignoring Iran as unimportant or adopting halfway measures will not help. To this end several alternative policy options below.

### **1. Coercive Containment**

If the United States truly believes that Iran is a pariah state that threatens American interests then it should pursue an aggressive policy of isolation against Tehran. President Clinton should impose, unilaterally if need be, a stringent embargo and economic sanctions against Iran. American military power could in theory be used to intimidate and compel Iran to change its internationally objectionable behavior. This might be accomplished through a demonstration of military force against key Iranian economic and political targets.

However, short of overt Iranian aggression, this policy would be next to impossible to implement. An effective embargo would require the United States attaining the unlikely cooperation of Iran's neighbors.<sup>207</sup> Therefore, it is doubtful that Iran could be effectively

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<sup>207</sup>Iran is bordered by Iraq, Turkey, Armenia, Azerbaijan, Turkmenistan, Afghanistan, and Pakistan - A very unlikely coalition even in the best of times.

isolated. Additionally, the economic impact on the region would be enormous. Not only would it negatively impact the local economy, but the loss of Iranian petroleum and natural gas could possibly lead to global recession.

If the situation were to last for an extended period of time, there is the distinct possibility that Iran and Iraq could band together and form a coalition of necessity. Deeper isolation would further impoverish the Iranian population and strengthen the position of the hard-liners and radicals by providing them a credible target for their anger. This could lead to an increased incidence of worldwide terrorism and drive toward acquiring weapons of mass destruction. Other negative impacts that could be expected to occur include an increase in ethnic violence and political turmoil within Iran's borders that would have the potential to spread throughout the region. Despite appearances, Iran has the capacity to be a stabilizing influence in a region racked with turmoil.

Finally, this policy requires a greatly expanded military presence in the Persian Gulf. This would prove extremely difficult to accomplish due to diminished capability, due post-Cold War military downsizing, and lack of will on behalf of both the American public and government. In final analysis, if the United States is not fully prepared to bear the costs of this policy, it should not be undertaken.

## **2. Full Engagement**

The United States should adopt the largely European/Japanese view of opening-up to Iran economically and politically as the best way of strengthening the moderate factions. As previously mentioned, many of our allies have recently agreed to reschedule Iran's debt payments. For instance, Germany has restructured Iran's \$5 billion in short term debt, a step that substantially helps Iran's economy.<sup>208</sup> Bonn, like other American allies, has

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<sup>208</sup>Elaine Sciolino, "U.S. and Germany at Odds on Isolating Iran," New York Times, 2 December 1993, p. A13.

resisted attempts to limit western trade and investment with Iran and has pushed for less pressure on Tehran. "The American position is not fair," said a senior German official involved in shaping the Iran policy. "The Americans are saying, 'these are the outcasts and isn't it better to have a dialogue with them?' We have certain difference of approach based on practicality."<sup>209</sup>

The argument for full engagement with Iran is that open engagement strengthens the pragmatists by improving the economy and thereby their popular support base. A friendly and helpful West, healthy economy, stable regional situation, significant popular support and exposure to Western influence could enable the pragmatists to overcome the radical factions and speed Iran's moderation. Full engagement would also increase Tehran's dependence on the West which could potentially lessen the hard-liners chance of regaining power in Iran.

The counter argument is that full engagement is a form of appeasement which only strengthens the hard liner's position, rewards extremism and will have little effect on Iran's behavior. The fear is that Tehran, bolstered by a strengthened economy, would be in an enhanced position from which to carry out its radical agenda.

Both arguments have their merits, and as is frequently the case in these matters, the truth probably lies somewhere in-between the two positions. However, what can be said with some certainty, is that extremism cannot be moderated while America and Iran remain at odds.

### **3. Constructive Engagement**

It is essential that the United States tread a fine line between positive and negative incentives. In order for the United States to carry on a stable and productive relationship with Iran in the future it will have to develop a mix of both firm diplomacy, backed by a

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<sup>209</sup>Ibid.

less visible (though credible) military capability in the region, and of political and economic engagement based on dialogue with all parties. Practical steps in this process include the following: First, the United States should recognize that the present Iranian government has already adopted a fairly consistent and moderate policy in its internal social, economic, and foreign activities and that there is considerable anti-U.S. and hard-line opposition inside Iran that would instantly reverse any policy moderation if and when it succeeded in coming to power. Thus, the political environment in Iran requires the United States to make comparable goodwill gestures and possibly more tangible payoffs. In the absence of these steps, Tehran's present course is likely to be seriously weakened, and the present leadership may not be able to sustain itself. Due to the fact that official U.S.-Iranian relations have been nonexistent since 1980, it would be a positive first step if America were to reestablish a working diplomatic relationship with Iran. Washington could view the current political atmosphere in U.S.-Iranian relations as "transitional" and begin laying the ground work for eventual resumption of ties. Toward this end, it should reaffirm publicly, and through intermediary third parties, that any future American-led security arrangements in the Persian Gulf would not be directed against Iran.

Second, the American government should pledge to assist in economic reconstruction efforts currently under way in Iran in return for Tehran's complete abandonment of all hostile acts against the United States. At the same time, Washington should continue working toward the mutual removal of long standing problems with bilateral relations. For example, instead of allowing business and trade to take their natural course and slowly build a foundation for a future Iran-U.S. rapprochement, the American government counterproductively stifles these opportunities. Since 1987 the United States chief executive has annually signed an executive order declaring a state of emergency between America and Iran. This embargo effectively keeps Iranian goods from entering the United



States. One suggestion would be to allow the embargo to simply lapse. Other confidence building measures would include the payment of reparations to the families of the 290 passengers killed in the 1988 airliner shootdown and the initiation of negotiations in search of a final agreement concerning the estimated \$12 billion in frozen Iranian assets held by the United States.

Third, the United States should make it clear to Iran that the international community will not tolerate political assassinations or other terrorist acts by groups or individuals operating from Iranian territory or using Iranian facilities. Any such case should be prosecuted vigorously, and Iran should be made aware that evidence of its complicity will result in loss of access to international diplomatic and financial support. Iran cannot evade responsibility for the operation of private or semi-private foundations and other institutions conducting illegal operations from its territory. That includes incitement to murder by offering rewards for assassination.

Fourth, a significant part of any lasting security structure in the Persian Gulf is the Iranian role and how Iran is engaged by both the GCC and the United States. Therefore, the United States should engage Iran in a dialogue on regional security. Such a dialogue would recognize both American and Iranian interests in the region and the need to deescalate tensions. Using its influence with the GCC, Washington should promote an inclusive regional security apparatus in return for nonaggressive behavior from Iran. Unfortunately, there is little likelihood of Iran's acceptance in the GCC in the immediate future, given GCC traditional suspicions of Tehran's intentions, but informal consultations and a continuing dialogue could create a more relaxed security atmosphere.

Fifth, as previously documented in this study, Iran has legitimate security concerns. The international community should allow Tehran to rebuild its military for the legitimate purpose of self defense. Meanwhile, continue to work towards a comprehensive arms

control agreement that is equally applied to all states in the Middle East. Iran's nuclear program should be stringently monitored in accordance with a strengthened international inspection regime that is reinforced by strict application of export controls on dual use technology. The efforts to limit access to both conventional and nonconventional weapons technology are extremely important not only in regard to Teheran, but to every nation in this volatile region. If Washington is serious about promoting stability in the region, it must attempt to limit the flow of weapons to the Middle East that have resulted in the regional arms race that we see today.

An immediate restoration of normal American-Iranian relations is unlikely given the legacy of adversarial baggage. The United States should risk cautious, specific steps to renew economic relations, in expectation of eventual diplomatic dialogue. If need be, Washington could utilize European and GCC intermediaries such as Germany or Qatar,<sup>210</sup> who have reestablished strong political and economic ties with Iran. This tactic could eventually serve as a springboard toward meaningful direct dialogue between the United States and Iran.

The United States must recognize that the Rafsanjani government has already taken the path of moderation in its internal socioeconomic and foreign regional activities, and that the present political environment in Iran requires comparable goodwill gestures and tangible payoffs from America. In the absence of such American responses, the government in Tehran will be seriously weakened, and its influence over radical elements may not be sustainable over the coming years.

A healthy Iranian economy and the improved standard of living, education and opportunities which would accompany constructive engagement would work to accelerate

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<sup>210</sup>See, Youssef Azmeh, "Maverick Qatar Defends its Foreign Policy," Reuters. America Online Service. 18 July 1994.

Iran's political freedom and moderation. Furthermore, cooperation and mutual dependence of the West, Iran and the Gulf states would result in increased regional stability. If the pragmatic factions of Iranian leadership could show positive results of nation-building and cooperation with the West, the extremists would be left with little but inflammatory rhetoric and no one to direct it at.

Above all, the United States must maintain consistency in policy and the political will to remain involved in creating a nonviolent security environment in the Gulf. This will necessitate patience in dealing with Gulf problems. Demands will be taxing, but in few places in the world are the stakes higher.

## IX. CONCLUSION

At present, Iran is undergoing a transitional period, where the ingredients of political radicalism compete daily with a quest for normalcy and political moderation. But if Western assistance in Iran's reconstruction efforts and reestablishment of diplomatic ties remains largely frustrated, Iran's present rulers may not be able to sustain their relatively moderate foreign policy posture much longer.

Due to its pluralistic political system and serious domestic problems, the Iranian situation is difficult to understand and predict. Yet this is precisely why the United States must recognize these interests and problems and formulate a strategy for dealing constructively with Iran. The key will be the state of the Iranian economy, the domestic political situation, and the American ability to understand both.

The path to normalization of relations between Iran and the United States will not be easy. On both sides, the past stands in the way of any dramatic change in the relationship. Political leaders in both countries remain vulnerable to criticism from publics that are not yet ready to forget recent history and from opponents who would exploit that vulnerability. Iran's past insults and provocations will not be quickly forgotten in the United States. In Iran neither the enmity against "the great Satan" of the past nor the sentiments born of the revolution can be quickly suppressed. Although Rafsanjani has sought to steer a more moderate course, many in Iran's leadership still regard the United States as the source of previous humiliation and as an enemy to the success of the revolution. Policy makers and the public alike need to remain objectively informed as to what is happening in each country.

Iran is the largest and potentially the most powerful regional state, while the United States is the most powerful political and military force in the Persian Gulf. We can coexist

in a state of perpetual hostility and mutual demonization, or we can pursue a practical agenda based on realistic understanding of American and Iranian interests. A strategy of constructive, but realistically cautious, engagement is recommended for Iran.

The current policy of dual containment which relies on pressuring and publicly condemning Iran is based upon a series of predominant myths and misunderstandings. Although the Iranian position is also based on misunderstanding, it is in Washington's interest to begin a serious reassessment of its Iran policy. By continuing to gratuitously condemn Iran while seeking to cripple the country economically and isolate it politically, American policy makers are pursuing a counterproductive strategy. Internationally, Iran will respond in kind to American pressure; within Iran itself, this pressure will only strengthen the most extreme groups who continue to feed off the emotions and suffering that have followed in the path of the revolution and the devastating war with Iraq.

If American policy and pressure are able to do serious economic and political harm to Iran, the results could be disastrous for stability in the Persian Gulf. In this context, the United States must not confuse Iran with Iraq. Iran is a much larger and more potentially formidable factor in the Persian Gulf. An alienated Iran might be more inclined to unleash forces and ignite conflicts that could result in the permanent end to the delicate balance of regional stability. Although this might be viewed as desirable in certain quarters such as Israel or Iraq, it could mean political catastrophe for the GCC states.

This is not to recommend that the United States rush to recognize and embrace Tehran. Rather, it suggests that prudent policy would first be based on a recognition of what is myth and what is reality concerning Iran. Such policy would then involve toning down the rhetoric while practicing patience. The United States should consider implementing a low-key dialogue while initiating a series of confidence building measures that would be apportioned according to the Iranian response.

A meaningful dialogue on arms control, regional security and economic assistance could be first steps toward improving relations. Outside influence and cooperation from the West would strengthen the moderate factions of government and assist popular pressures for political and economic reforms. Diplomatic engagement and cooperation vice isolation, is a necessary step to controlling the arms build up, particularly the spread of weapons of mass destruction. Political and economic pressure can also be applied to stop the support of terrorism by Tehran, while terrorist organizations themselves are dealt with directly, either by the United States or our allies.

Iran is an inescapable and vital part of any long term security arrangement in the Persian Gulf. We may either aggressively confront the Islamic Republic or attempt to cooperate with them under certain conditions. Ignoring Tehran or adopting halfway measures which are politically possible but ineffective will not help the situation. While the United States military will continue to be the guarantor of Persian Gulf security for the foreseeable future, a U.S.-Iran security dialogue, pursued in conjunction with the GCC and possibly other states as well could create a regional consensus which would enable American policy to be implemented in a comprehensive manner and would help to safeguard the interests of the United States and the other states involved while deemphasizing the military role. This would be a first step toward promoting stability and security of the area, which is arguably America's number one interest.

A regional security system involving all Gulf countries is preferable to an "armed peace" maintained by American power, but this is likely to come about only slowly. America must concentrate on reducing tensions, establishing effective crisis containment mechanisms to limit conflicts, and on using its Gulf military presence to maintain and stabilize the balance and keep the peace. The United States needs to gradually move away from the old balance-of-power orientation and toward the establishment of a regional

forum where security discussions with all states in the Gulf can take place. Iran has long been ready for such discussions.

Bruce Laingen, the senior American diplomat held hostage in Iran during 1979-1981, recently stated:

I deplore the absence of a relationship with Iran - I mean with the present regime. If anyone had told me in 1981 when I and my fellow hostage colleagues left Iran that twelve years from now we would still be at sword's point, I would have said that you are out of your mind.<sup>211</sup>

It may be time to put the sword down. Both sides must now work toward dismantling the elaborate scaffolding of mythology that has come to obscure reality. If not, America and Iran will remain on a collision course that could be very costly.

In his inaugural address in 1989, with American hostages being held in Lebanon, President Bush stated to the leadership in Iran that "good will begets good will." However, in the following years those words were lost in the swirl of Desert Storm and the 1992 presidential campaign. As the Clinton administration begins to reexamine its options toward Iran, a policy of constructive engagement based on a clear enunciation of mutual interests is not a bad place to begin.

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<sup>211</sup>Statement at Conference on "U.S.-Iran Relations: Areas of Tension and Mutual Interest," 8 September 1993, Washington D.C.

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